Standalone Annual Report MEDICALgorithmics

for 2021

This report includes:

- Letter from the Management Board
- Standalone Financial Statements
- Directors' Report on the Activities of the Capital Group and Medicalgorithmics S.A.
- Management Statements
- Supervisory Board Statements

Dear Sirs and Madams,

You are about to read 2021 Annual Report of Medicalgorithmics Group. The last year has been a challenge for us as well as many other businesses in our sector as the pandemic continued to unfold. Priorities in healthcare have been shifted towards combating SARS-COV2 virus, therefore causing limited access to healthcare professionals for the sales force in USA as well as many other countries around the world. This resulted in a business growth rate lower than expected globally.

However, it was a very busy year for our teams, and one with an optimistic outlook, as well. Despite the continuing pandemic, PocketECG technology and its clinical value have grown in popularity, as evidenced in the number of patients tested worldwide in 2021 (152,455 which was 19,023 more than in the previous year). In the key U.S. market, we continued our growth strategy by transforming the out-of-network model to one that involves long-term service contracts made directly with key private insurers (in-network), achieving 91% coverage of the U.S. population under the in-network model. This has improved the market position of Medi-Lynx on par with other market competitors in terms of access to the insured. However, faced by the pandemic, the implementation of in-network strategy took longer than we anticipated.

Another effort following from our growth strategy was to establish cooperation Redox and integrate with its solution in the United States, which enabled us to achieve readiness for rapid integration of PocketECG system with EHR hospital records. This has further improved our competitive advantage and market access as well as enhanced our relationships with the existing customers, attaching them even further to our technology. In addition, at Medi-Lynx, we implemented a number of process and system improvements to enable efficient exchange of medical information as well as billing with healthcare providers and insurers. The above can be observed in a more margin-oriented mix of services and significantly reduced operating costs, including US payroll.

Having achieved the milestones mentioned above, we focused on commercialization activities to increase our market share and achieve growth in our Mobile Cardiac Telemetry (MCT) offer, which is the most profitable for us. Our technology is highly competitive in this particular type of test and very reputable among the medical community for its clinical value, as further evidenced by a clinical trial contract which MediLynx signed with the U.S. Cardiothoracic Surgery Trials Network (CTSN), an organization funded by state organizations NHLBI and NIH. As part of the project, Medi-Lynx became a remote diagnostics solution provider for clinical trials which are conducted by the most renowned research centers in the United States (and soon in Canada). The Management Board has taken additional operational measures aimed at optimizing the US test structure, by managing the client base, limiting cooperation with facilities generating low level of the average revenue per test, in favor of intensifying cooperation and acquiring new healthcare facilities that can provide higher level of the average revenue per test. As a result, in the last year we managed to file approx. 27,300 MCT applications, a 25% year-on-year increase in our flagship test in the US market.

In addition, at the start of 2022 we ended our collaboration with Mr Peter Pellerito by dismissing him from the Company's Management Board and terminating his contract with subsidiary Medi-Lynx Cardiac Monitoring, LLC. To flatten the management structure, we established the Executive Committee in lieu of the President of Board. Its main mission is to ensure realistic and predictable business goals while accelerating our sales growth in the US. We have already observed positive results of this decision after the first quarter of 2022.

Please note our steady growth in the high-margin business also outside the United States. In 2021, our technology was used to screen 85,044 patients (71,261 in 2020) and we placed an additional 1,131 new devices on the market to reach a total number of 3,927 active units at the end of the year (up by 21% versus 2020), for which we charge monthly fees. We signed new partnership agreements in major countries, including Spain, Switzerland, Indonesia, Philippines and Hungary, therefore increasing our presence to 19 overseas markets and improving our non-US revenues by 19% from 2020 to reach PLN 13.2 million. We are making continuous efforts to grow the business also outside USA and increase revenue diversification in our activities.

As a technology company we proceeded with numerous ambitious projects in R&D areas. Our main focus was on priority projects considering the current market expectations and the comprehensive nature of our offer. In 2021, we replaced about 9,000 PocketECG third-generation units with 4Gen devices. We want to replace all third-generation devices across the world with the latest generation version. We have been working on the cutting-edge technology called Qpatch Extended Holter which will complement our product portfolio with a new patch device for single-channel offline ECG monitoring, featuring ease of use matched by good quantitative data from 7-14 day tests. It will complement the current PatchECG device and provide solutions that are eligible for reimbursement in the US. Adding it to the portfolio will make our diagnostic services comprehensive. This implies even more room for significant growth in service sales and revenues. In May 2022 we are going to apply for a market authorization in the U.S. and FDA's approval for this product. In 2021, we also worked on two very important additional IT projects. These included a new cloud-based platform called NEXTGEN which will replace our ECG data analysis software already installed on workstations, and DeepRhythmAI (DRAI) project which is another cloud-based software dedicated to automated ECG data analysis and featuring a proprietary deep-learning algorithm that measures and analyzes ECG data to feed supporting information to healthcare professionals so that they are able to review the ECG data when diagnosing cardiac arrhythmias. This way we have jointed the growing global trend of putting artificial intelligence to use for the benefit of the healthcare sector. Both technologies will be registered with FDA later this year.

Since 2021, the Company and the Group have worked intensively to secure financing for the Group's development and to strengthen its growth through a review of available strategic options (cf. Current Reports 31/2021, 35/2021 and 6/2022). These processes have not been completed as of the date of the interim report, and the current status as well as any associated uncertainties are described in the financial statements.

2022 is going to be a landmark year for us. We are expecting the overall situation to go back to normal as the pandemic goes away, and markets to keep opening and allowing more room for intensified sales force activity. Moreover, on the US market we have been observing an improved mix of services compared to the last year and this should have a positive effect on our margins. We are also improving our sales planning and predictions and it furthers the confidence and trust in our Group both internally and externally. We have been working hard on the new technologies and expect to launch them first in the US, followed up by other overseas markets. We are confident that 2022 will bring positive consequences of all the above changes and efforts as a prelude to further dynamic growth of Medicalgorithmics.

We would like to thank the entire staff of Medicalgorithmics both in Poland and abroad, as well as Medi-Lynx, for their commitment and hard work in such demanding circumstances, and also our shareholders and investors for their trust and support in our business transformation.

Sincerely,

Maciej Gamrot
Member of Management Board and Chief Financial Officer

Jarosław Jerzakowski
Member of Management Board

INNOVATIVE SOLUTIONS IN MEDICINE

FINANCIAL
STATEMENTS
MEDICALGORITHMICS S.A.
FOR 2021

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	PLN '000		EUR '000	
Statement of financial position	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**
Non-current assets	8 270	189 431	1 798	41 049
Current assets	61 802	42 403	13 437	9 188
Intangible assets	3 707	22 224	806	4 816
Long-term financial assets	97	65 727	21	14 243
Short-term receivables	53 958	37 269	11 732	8 076
Cash and cash equivalents	706	829	153	180
Equity	56 148	217 458	12 208	47 122
Share capital	498	433	108	94
Short-term liabilities	7 667	6 939	1 667	1 504
Long-term liabilities	6 257	7 437	1 360	1 612
Number of shares	4 976 385	4 327 829	4 976 385	4 327 829
Book value per ordinary share (PLN/EUR)	11,28	50,25	2,45	10,89

Statement of comprehensive income	**01.01.2021-31.12.2021**	**01.01.2020-31.12.2020**	**01.01.2021-31.12.2021**	**01.01.2020-31.12.2020**
Sales revenue	46 192	51 691	10 091	11 553
Profit on sales	12 168	24 403	2 658	5 454
Operating profit	(13 170)	21 261	(2 877)	4 752
Profit before tax	(172 011)	21 784	(37 578)	4 869
Net profit	(172 369)	21 205	(37 656)	4 739
Earnings per ordinary share (PLN/EUR)	(37,91)	5,12	(8,28)	1,15

Statement of cash flows	**01.01.2021-31.12.2021**	**01.01.2020-31.12.2020**	**01.01.2021-31.12.2021**	**01.01.2020-31.12.2020**
Net cash flows from operating activities	(3 138)	13 576	(685)	3 156
Net cash flows from investing activities	(7 705)	12 135	(1 683)	2 821
Net cash flows from financing activities	10 720	(39 474)	2 342	(9 176)
Total net cash flows	(123)	(13 763)	(27)	(3 199)

Method of conversion of selected figures into EUR:

- The presented selected items of the statement of financial position presented were converted using the mid-rate quoted by the National Bank of Poland (NBP) for 31 December 2021, i.e. EUR/PLN 4.5994, and for 31 December 2020, i.e. EUR/PLN 4.6148;

- The presented selected items of the statement of comprehensive income and the statement of cash flows were converted based on the arithmetic mean of the mid-rates quoted by the NBP for the last day of each month of the financial period from 1 January 2021 to 31 December 2021, i.e. EUR/PLN 4.5775, and from 1 January 2020 to 31 December 2020, i.e. EUR/PLN 4.4742.

		31.12.2021	31.12.2020
Intangible assets	12	3 707	22 224
Property plant and equipment	13	3 016	3 939
Financial assets	14	97	65 727
Shares in subsidiaries	15	1 450	96 221
Deferred income tax assets	11	-	1 320
Non-current assets		**8 270**	**189 431**
Inventories	16	7 138	4 305
Trade and other receivables	17	53 958	37 269
Cash and cash equivalents	18	706	829
Current assets		**61 802**	**42 403**
TOTAL ASSETS		**70 072**	**231 834**

		31.12.2021	31.12.2020
Share capital	19	498	433
Supplementary capital		228 019	195 820
Retained earnings		(172 369)	21 205
Equity		**56 148**	**217 458**
Other liabilities	21	144	-
Provisions	20	105	899
Deferred tax liabilities	11	1 322	2 992
Other financial liabilities	23	1 246	1 953
Accruals and deferred income	22	3 440	1 593
Long-term liabilities		**6 257**	**7 437**
Short-term provisions		780	-
Credits and loans		1 434	2 834
Other financial liabilities	23	1 067	875
Trade and other liabilities	22	4 340	2 988
Accruals and deferred income	22	46	242
Short-term liabilities		**7 667**	**6 939**
Total liabilities		**13 925**	**14 376**
TOTAL EQUITY AND LIABILITIES		**70 072**	**231 834**

		01.01.2021-31.12.2021	01.01.2020-31.12.2020
Sales revenue	5	**46 192**	**51 691**
Raw materials and consumables used		(10 026)	(6 580)
Employee benefits	6	(11 604)	(10 218)
Amortization and depreciation		(4 002)	(2 800)
Third-party services	7	(7 944)	(7 319)
Other		(448)	(371)
Total costs of sales		**(34 024)**	**(27 288)**
Profit on sales		**12 168**	**24 403**
Other operating revenue	8	220	9
Other operating expenses	8	(25 558)	(3 151)
- including impairment losses on receivables		(3 359)	-
- including impairment of intangible assets		(21 737)	-
Operating profit		**(13 170)**	**21 261**
Finance income	9	12 059	3 259
- including interest income		3 447	-
Finance costs	9	(170 900)	(2 736)
- including impairment of financial assets		(75 883)	-
- including impairment of shares		(94 771)	-
Net finance (costs)/income		**(158 841)**	**523**
Profit before tax		**(172 011)**	**21 784**
Income tax	10	(358)	(579)
Net profit from continuing operations		**(172 369)**	**21 205**
Other net comprehensive income for the reporting period		-	-
Total comprehensive income for the reporting period		**(172 369)**	**21 205**

Basic and diluted profit per share in PLN			
Basic profit per share in PLN		(37,91)	5,12
Diluted profit per share in PLN		(37,91)	5,12

	Share capital	Supplementary capital	Retained earnings	Total equity
Equity as of 1 January 2021	**433**	**195 820**	**21 205**	**217 458**
Comprehensive income for the reporting period	-	-	-	-
Net loss for the current reporting period	-	-	(172 369)	(172 369)
	433	**195 820**	**(151 164)**	**45 089**
Transactions recognized directly in equity				
Distribution of profit for the previous year	-	21 205	(21 205)	-
Issue of shares	65	10 994	-	11 059
Total contributions from and distributions to owners	**65**	**32 199**	**(21 205)**	**11 059**
Equity as of 31 December 2021	**498**	**228 019**	**(172 369)**	**56 148**

	Share capital	Supplementary capital	Retained earnings	Total equity
Equity as of 1 January 2020	**361**	**166 719**	**16 594**	**183 674**
Comprehensive income for the reporting period				
Net profit for the current reporting period	-	-	21 205	21 205
	361	**166 719**	**37 799**	**204 879**
Transactions recognized directly in equity				
Distribution of profit for the previous year	-	16 594	(16 594)	-
Issue of shares	72	12 507	-	12 579
Total contributions from and distributions to owners	**72**	**29 101**	**(16 594)**	**12 579**
Equity as of 31 December 2020	**433**	**195 820**	**21 205**	**217 458**

Cash flows from operating activities		01.01.2021-31.12.2021	01.01.2020-31.12.2020
Net profit for the reporting period		**(172 369)**	**21 205**
Depreciation of property, plant and equipment	13	1 256	1 258
Amortization of intangible assets	12	2 749	1 543
Income tax	10	358	579
Change in inventories	16	(2 833)	1 453
Change in trade and other receivables		(17 305)	(25 215)
Change in accruals, prepayments and deferred income		(828)	875
Change in trade and other liabilities		2 129	(1 400)
Change in provisions		(14)	184
Revaluation of intangible assets		21 737	3 108
Impairment of shares		94 771	-
Impairment of financial assets		75 883	-
Tax paid		-	(1 016)
Foreign exchange differences		(5 495)	988
Interest		(3 188)	(2 916)
Other		(11)	304
		(3 138)	**950**
Cash flows from investing activities			
Loans granted	14	(1 500)	-
Repayment of loans granted with interest		-	730
Purchase of property plant and equipment and intangible assets	12,13	(6 205)	(4 876)
		(7 705)	**(4 146)**
Cash flows from financing activities			
Income from issue of shares	19.3	11 447	12 579
Repayment of credit card debt		12	16
Proceeds from credits taken out	21	(1 415)	2 807
Repayment debt on account of credits taken out with interest		-	(12 850)
Payments of finance lease liabilities		(1 104)	(996)
Interest on finance leases		(67)	(83)
Other inflows from financing activities		1 847	565
		10 720	**2 038**
Total net cash flows		**(123)**	**(1 159)**
Opening balance of cash and cash equivalents		829	1 987
Closing balance of cash		**706**	**829**

1. General information

Medicalgorithmics S.A. (the “Company”, “Entity”) is a Polish provider of advanced technologies which seeks to position itself as a leading supplier of systemic and algorithmic solutions in cardiac diagnostics, especially in the area of the ECG signal analysis. Established as a limited liability company in order to commercialise Polish technology innovations, the Company is now one of the largest global players on the cardiac telemetry market.

Medicalgorithmics S.A. is a joint-stock company (corporation) registered in Poland. The Parent was established based on a notarial deed of 23 June 2005 (ref. A 1327/2005). In 2011, its shares debuted on NewConnect, an alternative trading system of the Warsaw Stock Exchange. Since February 3, 2014 Medicalgorithmics S.A. has been listed on WSE’s primary market.

The Parent was registered in the National Court Register by the Warsaw District Court based in Warsaw, 12th Commercial Division, and its company number (KRS) is: 0000372848.

The Parent has also been assigned statistical and VAT numbers: REGON 140186973 and NIP 5213361457, respectively.

Registered office: Al. Jerozolimskie 81, 02-001 Warsaw.

As of the balance sheet date and as of the date of preparation and publication of these financial statements, the Management Board and Supervisory Board of the Company were composed of the following persons:

Management Board

Maciej Gamrot – Member of Management Board and Chief Financial Officer (since August 23, 2021)
Jarosław Jerzakowski – Member of the Management Board (since August 5, 2021)
Peter G. Pellerito – Member of the Management Board (until January 14, 2022)

On May 11, 2021, the Supervisory Board adopted a resolution appointing Mr. Marcin Grzegorz Gołębicki as the President of the Management Board starting June 16, 2021. Due to his nomination to the Management Board, Mr. Marcin Gołębicki resigned from the Supervisory Board effective June 15, 2021. On June 15, 2021, Mr. Marek Dziubiński’s presidency of the Management Board expired. On July 29, 2021, the Company received a notice of resignation from Mr. Marcin Gołębicki concerning his position of the President, effective on the date of its submission.

On August 5, 2021, the Supervisory Board passed a resolution appointing Mr. Jarosław Jerzakowski (then the International Business Development Officer) as the Member of the Management Board for a term of three years.

On August 23, 2021, the Supervisory Board adopted a resolution appointing Mr. Maciej Gamrot as the Member of the Management Board and the Chief Financial Officer for a term of three years. Mr. Maciej Gamrot replaced Mr. Maksymilian Sztandera in this position, with the latter having been dismissed on August 23, 2021.

On January 14, 2022, the Supervisory Board passed a resolution dismissing Mr. Peter G. Pellerito from the position of the Member of the Management Board. His dismissal was due to his employment agreement having been terminated with subsidiary Medi-Lynx Cardiac Monitoring, LCC.

Supervisory Board

Marek Dziubiński - Chairman of Supervisory Board
Michał Wnorowski - Vice Chairman of Supervisory Board, Chairman of Audit Committee
Anna Sobocka - Member of Supervisory Board, Member of Audit Committee
Stanisław Borkowski - Member of Supervisory Board
Brandon von Tobel - Member of Supervisory Board, Member of Nomination and Remuneration Committee (until March 22, 2022)
Martin Jasinski - Member of Supervisory Board, Member of Nomination and Remuneration Committee
Andrzej Gładysz - Member of Supervisory Board, Chairman of Nomination and Remuneration Committee (since October 26, 2021)
Grzegorz Janas - Member of Supervisory Board (since October 26, 2021)
Werner Engelhardt - Member of Supervisory Board (from October 26, 2021 to March 21, 2022)

Due to his appointment to the Management Board, Mr. Marcin Gołębicki has resigned from the Supervisory Board as of June 15, 2021. As the term of office of the current members of the Supervisory Board expired, namely Mr. Michał Wnorowski, Mr. Artur Małek, Mr. Krzysztof Urbanowicz, Mr. Marek Tatar and Mr. Mariusz Matuszewski, on June 15, 2021 the Annual General Meeting appointed the following persons to the Supervisory Board for a new term of three years starting June 27, 2021: Mr.

Marek Dziubiński, Mr. Michał Wnorowski, Mr. Marek Tatar, Ms. Anna Sobocka, Mr. Stanisław Borkowski, Mr. Brandon von Tobel and Mr. Martin Jasinski.

On October 25, 2021, the Company was notified by Mr. Marek Tatar of his resignation from the Supervisory Board, effective on the date of submission. On October 26, 2021, the Extraordinary General Meeting resolved to appoint new members of the Supervisory Board: Mr. Andrzej Gładysz, Mr. Grzegorz Janas and Mr. Werner Engelhardt. The number of Supervisory Board members hence increased to nine persons.

On March 21, 2022, the Company was informed that Mr. Werner Engelhardt resigned from his position in the Supervisory Board, effective on the date of the submitted notice. On March 22, 2022, the General Meeting dismissed Mr. Brandon von Tobel from the Supervisory Board, Resolution 4/03/2022effective upon adoption.

2. Basis for preparation of the financial statements

2.1. Statement of compliance

The annual separate financial statements (“financial statements”) were prepared in line with International Financial Reporting Standards as adopted by the European Union (“IFRS EU”).

IFRS EU include all International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and related Interpretations, except for the Standards and Interpretations listed below that are pending EU’s approval as well as Standards and Interpretations already approved by EU but not effective yet.

The Company has not taken advantage of the potential early application of the new Standards and Interpretations already published and approved by EU, which however will become effective after the reporting date.

Going concern assumption of Parent and Capital Group

The Management Board prepared the financial statements on a going concern basis, taking into account the existence of significant uncertainty as to the Parent’s and the Group’s continuation as a going concern over the next 12 months counted from the balance sheet date.

That uncertainty is related to the ability to secure financing, which is a key issue and area of uncertainty in the Company's and the Group's ability to continue as a going concern. Based on the current assumptions, the Group's cash demand fits in the range of USD 4 - 6 million (see Current Report 21/2022). Out of prudence, the Management Board is pursuing more finance. As announced by the Issuer (Current Report 21/2022 of April 20, 2022), based on the conservative assumptions made by the Management Board, the current cash position implies the need for extra financing over an approximate horizon of two months, either in the form of debt financing or through sale of certain assets.

The need to seek the financing results from the circumstances described in the Issuer's Current Report 6/2022. Following a management change in the Issuer's subsidiary, Medi-Lynx (see Current Report 2/2022), the previously assumed volume of medical tests to be performed in 2022 has been revised and identified as overly optimistic. Hence, expected cash inflows from the US market were revised, as well. Revised expectations regarding the growth of revenues to be generated in the U.S., in addition to costs that are being incurred for equipment manufacturing and technology development, imply a need to find additional financing over an approximate horizon of two months.

There are also other issues and risks, as described further below, that have a material impact on the Company's and the Group's ability to continue as a going concern. However, it is the procurement of the financing on at least the assumed level or the sale of assets that creates the uncertainty on which depends the continuation of its business by the Company and MDG S.A. Capital Group.

Among the other issues and risks of material impact on the Company's and the Group's ability to continue as a going concern, there are:

1. The ability to achieve the assumed growth in revenues in the U.S., while maintaining the assumed level of the Group's operating expenses, including costs of equipment manufacturing and technology / sales development.
2. The ability (if needed) to enter into agreements changing the terms of repayment of debts, including a credit facility from Bank Millennium S.A., liabilities due to Medi-Lynx Monitoring, Inc. under the Medi-Lynx acquisition.
3. Public aid for Medi-Lynx which may be eligible for approximately USD 4.5 million in non-refundable funds.

However, the key issue and uncertainty in the Group's ability to continue as a going concern is the procurement of the financing.

As long as the financing is obtained (either debt finance or equity investment currently assumed at USD 4 - $6 million), the Company and the Group will be able to continue, subject to other financial assumptions, for at least 12 months after the balance sheet date. However, should the financing procured be lower than assumed, supplemental financing will be needed or certain assets of the Group urgently sold, including:

1. Sale of the entire Medi-Lynx LLC (ML) business;
2. Sale of all or some MDG assets, such as intellectual property rights.

In order to obtain the debt financing or sell the assets, as part of the review of its strategic options, the Management Board (assisted by the Supervisory Board) is carrying out the following activities:

1. The Management Board is in intensive discussions with advisors regarding bridge financing and the potential sale of the Group's assets. Agreements have been signed with two US advisors to find finance, with one of them also seeking an investor or sale of the Group's assets.
2. As of the date of these statements, the Group does not have detailed terms and conditions of a potential finance / asset sale transaction. The Company is currently holding talks with several parties, however these are not negotiations of the actual terms of such transaction. The Group has not received formal proposals yet. The Group has made business presentations and the analysis of potential transaction scenarios and transaction objects is pending. No binding or non-binding transaction documents have been signed. However, in order to enable the future transaction, in the event it will require a tight timetable and be justified in the context of the Company's plans and strategies related to its and the Group’s current operational and financial position, the Management Board summoned the Extraordinary General Meeting for May 10, 2022. The agenda for the meeting included resolutions enabling the future transactions to proceed.

As mentioned above, the Company’s and the Group’s ability to continue as a going concern is affected by the risk related to the achievement of the expected growth in revenues in the U.S., while maintaining the assumed level of the Group's operating expenses, including costs of equipment manufacturing and technology / sales development. When creating its financial plans and estimating its financing needs, the Group assumed various scenarios of, for example, sales growth and level of costs, therefore determining the necessary minimum finance in the range of approximately USD 4-6 million. To achieve its Medi-Lynx sales targets, the Group assumed a major (up to two times) increase of the sales team. Currently, facing the risk of insufficient financing, the Group has significantly limited such plans and it could have a negative impact on its ability to achieve the assumed sales targets. If unable to achieve the sales level assumed in its forecasts or should costs rise, the need for finance may be greater than originally assumed.

Another key issue for the Company's and Group's continuity of operations is its ability to timely repay the credit facility from Bank Millennium S.A., also taking into account the risk of required early repayment before the contracted maturity date. As of the balance sheet date, the available credit line was PLN 9.4 million (April 30, 2022: PLN 6.0 million), including consumed PLN 1.4 million as of December 31, 2021 and PLN 4.7 million as of April 25, 2022. According to the credit facility agreement, the limit is gradually reduced at a rate of PLN 860 thousand per month until the end of November 2022. The risk of early repayment stems from the agreement itself which allows the Bank to terminate the agreement in the event of a material deterioration of the borrower's position or a loss of its creditworthiness, which the bank could recognize in the case of the Company’s situation. Furthermore, in the event of any additional debt finance taken out by the Company the credit facility agreement requires that the bank be provided with the same security as the one given to the party providing such debt finance, and in certain transactions which are currently being considered this could be impossible. Due to the uncertainty surrounding the timeframe and amounts of the future financing, the Group is negotiating with the bank options and conditions for deferred repayment without termination of the credit facility agreement and premature triggering of the due date.

Discussions are being held with Mr. Andrew Bogdan regarding an extension of payment due dates in order to avoid official enforcement proceedings against Medi-Lynx assets should amounts due to Medi-Lynx Monitoring, Inc. (an entity controlled by Mr. Bogdan who disposed of his interest in Medi-Lynx Cardiac Monitoring, LLC to the Issuer’s Group) for the acquisition of Medi-Lynx be late.

The outcome of these discussions with the bank and with Mr. Andrew Bogdan depends on, among other things, perspectives towards the procurement of the new financing or the closure of the asset sale transaction that would feed funds needed to repay the Bank and Medi-Lynx Monitoring, Inc.

In addition, in April 2022, Medi-Lynx applied for a partial tax refund of personal taxes paid under the Employee Retention Credit (ERC) program to U.S. Internal Revenue Service (IRS). According to AUTOMATIC DATA PROCESSING, INC. (ADP provides the payroll process support to Medi-Lynx), based on the new regulations of the Consolidated Appropriations Act of 2021 and the American Rescue Plan Act, Medi-Lynx is eligible for such public aid with respect to quarters 1-3 of 2021. The Group has not verified this information through other third-party advisors other than ADP. ADP has filed reimbursement claims for Medi-Lynx for a total of $ 4.5 million.

Also, ADP informed Medi-Lynx that its eligibility for the tax refund and the actual amount are subject to IRS approval, and until then neither the refund nor its final amount is certain (ADP is aware of some refund applications having been rejected). Confirmation of the tax refund applications is expected within approximately two months of their submission. Additionally, according to ADP, a refund, if any, will be paid only within 9 months following the date of submission because of the high turnout of public aid applications pending with IRS. There is no formal procedure for the IRS to expedite the processing of the tax refund application or the resulting payment. Based on such assumptions, the Group's assets were tested for impairment as described in Note 4.7 "Asset impairment testing" of these statements in order to measure the assets at net selling prices.

Based on such assumptions, the Group's assets were tested for impairment as described in Note 2.7 "Asset impairment testing" of these statements in order to measure the assets at net selling prices.

In summary, the Management Board informs that:

1. No decision has been made to liquidate the Company or declare its bankruptcy as the prerequisites justifying such decision have not been met. Therefore, it cannot be assumed as certain that the Group will fail to be a going concern.
2. However, there is significant uncertainty whether funds can be secured from:
    a. future debt financing,
    b. sale of Medi-Lynx assets;
    c. sale of Medicalgorithmics S.A. assets;
    d. public aid for Medi-Lynx.

Accordingly, there are no grounds that would justify preparation of December 31, 2021 financial statements without the going concern assumption, however there are grounds allowing preparation of the financial statements based on a assumption of a significant uncertainty as to the ability to continue as a going concern.

2.2. First-time adoption of standards and interpretations in 2021

The accounting policies used in the preparation of these financial statements are consistent with those already used towards the financial statements for the year ended on December 31, 2020, except for the following new or revised standards and interpretations that have been effective for annual periods that started on or after January 1, 2021:

Standard / Interpretation	*Effective Date*	**Description of changes**
Amendment to IFRS 16 "Leases"	annual periods beginning June 1, 2020 (with option to apply earlier from June 30, 2020) approved by the European Commission	The lessee is not required to assess whether eligible COVID-19 rent concessions are lease modification. In 2021, the use of this expedient was extended through 2022.

Standard / Interpretation	*Effective Date*	**Description of changes**
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	annual periods beginning on January 1, 2021 approved by the European Commission	In related to the planned reform of reference interest rates (WIBOR, LIBOR, etc.), IASB has made further changes to the financial instrument accounting: • in the case of measurement at amortized cost, changes in estimated flows resulting directly from the IBOR reform will be treated as a change in the variable interest rate, and therefore without recognition of the result, • there will be no need to terminate the hedge as long as the only change is the outcome of the IBOR reform, with all other criteria of the hedge accounting met, • the entity is required to disclose information about risks of that reform and how it manages the transition to alternative reference rates.

The changes introduced have been reviewed by the Management Board and do not have a material impact on the Company's financial position, results of the Group's operations or the scope of information presented in these financial statements.

2.3. Standards and interpretations effective after the balance sheet date

The following standards, interpretations and amendments were issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, and have not become effective yet:

Standard / Interpretation	*Effective Date*	*Description of changes*
New IFRS 17 "Insurance Contracts"	annual periods beginning on January 1, 2023 approved by the European Commission	This new standard regulates the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. It replaces the current IFRS 4. In 2020, amendments to the standard were published.
Amendment to IFRS 4 "Insurance Contracts"	approved by the European Commission	Extension of IFRS 9 grace period until 2023.
Amendment to IAS 1 "Presentation of Financial Statements"	annual periods beginning on January 1, 2023 approved by the European Commission	The IASB clarified the classification of liabilities as either long- or short-term in terms of two respects mainly: • clarification: the classification depends on rights that an entity holds as of the balance sheet date, • management's intent to accelerate or delay payment of a liability are not taken into account.
Amendments to IFRS 1, IFRS 9, examples of IFRS 16, IAS 41	annual periods beginning on January 1, 2022 approved by the European Commission	Annual Improvements 2018 – 2020: • IFRS 1: additional exemption for the determination of cumulative exchange differences on consolidation; • IFRS 9: (1) when the 10% test is applied to determine whether a modification should result in the removal of a liability, only fees that are exchanged between the debtor and creditor should be taken into account; (2) clarification: fees incurred when a liability is removed are recognized in profit or loss, and if the liability is not removed, it should be applied to the value of the liability; • IFRS 16: the lessor's incentive to cover the lessee's fit-out costs was removed from Example 13 • IAS 41: the ban on the recognition of tax flows in the measurement of biological assets was removed.

Standard / Interpretation	***Effective Date***	***Description of changes***
Amendment to IAS 16 "Property, plant and equipment"	annual periods beginning on January 1, 2022 approved by the European Commission	Clarification: production performed as part of non-current asset testing before the asset is put to use should be recognized as inventory under IAS 2 and, once sold, as revenue.
Amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"	annual periods beginning on January 1, 2022 approved by the European Commission	Clarification: contract fulfillment costs that are part of the valuation of onerous contracts include incremental costs (e.g., labor costs) and an allocated portion of other costs directly related to the contract fulfillment, such as depreciation.
Amendment to IFRS 3 "Business Combinations"	annual periods beginning on January 1, 2022 approved by the European Commission	Clarification of references to the definition of liabilities contained in the Conceptual Framework and the definition of contingent liabilities in IAS 37.
Amendment to IAS 1 "Presentation of Financial Statements"	annual periods beginning on January 1, 2023 approved by the European Commission	The IASB clarified which information about an entity's accounting policies is material and requires disclosure in the financial statements. The rules focus on adapting disclosures to individual circumstances. The Board cautioned against the use of standardized notations copied from IFRS and expected that the basis of financial instrument measurement is relevant information.
Amendment to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"	annual periods beginning on January 1, 2023 not approved by the European Commission	The Board added an *accounting estimate* definition to the standard: Accounting estimates are monetary amounts in the financial statements that are subject to uncertainty as to measurement.
Amendment to IFRS 16 "Leases"	annual periods beginning April 1, 2021 (with option of early application to statements not authorized by March 31, 2021) approved by the European Commission	In 2020, the Board published expedients for lessees who receive COVID-19 pandemic relief. One of the conditions was that the relief could be applied only to payments with maturity not later than the end of June 2021. This has now been extended to June 2022.
Amendment to IAS 12 "Income Taxes"	annual periods beginning on January 1, 2023 not approved by the European Commission	The Board established a rule that if a transaction results in simultaneous positive and negative temporary differences of the same amount, deferred tax assets and liabilities should be recognized even if the transaction does not result from a business combination or affect accounting or tax results. This implies the recognition of the deferred tax assets and liabilities, for example when temporary differences of equal amounts occur for leases (separate temporary difference on the liability and on the right-of-use) or for reclamation liabilities. The rule that deferred tax assets and liabilities are offset against each other if the current tax assets and liabilities are offset has not been changed.
Amendment to IFRS 17 "Insurance Contracts"	annual periods beginning on January 1, 2023 not approved by the European Commission	The Board established transitional provisions for comparable information in the case of entities that simultaneously implement IFRS 17 and IFRS 9, to reduce potential accounting mismatches arising from differences between the standards.

The Company has decided not to take advantage of the optional early application of these new standards and amendments to the existing standards and interpretations. As estimated by the Company, the above standards, interpretations and their amendments would not have any significant impact on the financial statements if applied by the Company as of the balance sheet date.

2.4. Measurement

The financial statements have been prepared in accordance with the historical cost principle.

2.5. Presentation and functional currency

Data in the financial statements are presented in Polish zloty ("PLN"), rounded to the nearest thousand without decimal places. The Polish zloty is the functional currency of Medicalgorithmics S.A.

Transactions in foreign currencies are recognized using the functional currency of the Company as of the transaction date, based on the spot exchange rate between the functional currency and the foreign currency effective on the transaction date.

Monetary assets and liabilities lines expressed in foreign currencies are converted as of the end of the reporting period based on the average closing rate published for a given currency on such date.

Currency exchange differences that arise from the balance sheet valuation of monetary assets and liabilities represent the difference between the valuation at amortized cost in the functional currency as of the beginning of the reporting period, then adjusted for any accrued interest and payments made during the reporting period, and the value at amortized cost in the foreign currency converted as of the closing rate at the end of the reporting period.

Non-monetary balance sheet items that are expressed in foreign currencies that are measured at fair value are converted at the spot exchange rate of the functional currency effective on the date of the fair value measurement.

Foreign exchange differences on conversions are recognized in profit or loss of the current period. Non-monetary items which are measured based on historic cost in foreign currencies are converted by the Company based on the exchange rate published on the transaction date. Currency differences are recognized in profit or loss of the current period, except for differences that arise from conversion of equity instruments classified as financial instruments at fair value through other comprehensive income, financial liabilities designated as a hedge of a net investment in a foreign unit (that are effective), and qualified cash flow hedges that the Company recognizes in other comprehensive income.

2.6. Judgments and estimations

The preparation of financial statements in conformity with IFRS EU requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, with actual amounts potentially differing from those estimated.

Estimations and the related assumptions are subject to ongoing verification.

A change in accounting estimate is recognized in the period in which the estimate is changed or in current and future periods if the change in estimate affects both current and future periods.

The following are the key assumptions about the future as well as other bases of estimation uncertainty as of the balance sheet date that have a significant impact on the risk of material adjustments to the carrying amounts of assets and liabilities within the next financial year.

Professional judgment

In the process of applying the accounting policies to the below issues, the management's professional judgment (in addition to the accounting estimates) was most significant in:

- estimated duration of the pandemic and its impact on liquidity (more details in this note);
- determination of the time of fulfilment of obligations and of revenue recognition (Note 3.13);
- determination of the time of the commissioning of development work and determination of the economic utility of products introduced (Note 12);
- methods of impairment testing and estimation of the recoverable amount of tested cash generating units (Note 2.7).

Estimates and assumptions

A list of the Company's estimates is presented below, along with reference to specific notes that contain the description of principles applied. Significant estimates were applied to:

- impairment of financial and non-current assets, including shares in subsidiaries (estimate of projected cash flows to measure the recoverable value, estimate of discount rate) - Note 2.7;

- intangible assets (estimates of amortization rates used for intangible assets) - Note 12;
- property, plant and equipment (estimates of depreciation rates used) - Note 13;
- rights to use and finance lease liabilities recognized under IFRS 16 (estimates of the lease term, useful life and the discount rate used) - Note 13 and Note 25;
- trade receivables and other financial assets, including loans granted; as a result of the application of IFRS 9, the approach used to estimate impairment of financial assets is based on measurement at amortized cost or at fair value through other comprehensive income - Note 14;
- inventories (assessment of the probability of inventory impairment; determination of impairment requires estimation of net realizable values) - Note 16;
- transaction price - the estimated transaction price reflects a reliable estimate of the expected remuneration under the contract based on the Company's past experience and ability to perform such services (Note 5);
- current income taxes, deferred tax assets and liabilities, other taxes (notes 10 and 11).

The Polish tax laws are subject to frequent changes, resulting in significant differences in interpretation and significant uncertainty in their application. Tax authorities have controlling instruments that enable them to verify base tax amounts (in most cases from the previous five financial years), and to impose penalties and fines. Beginning on July 15, 2016, the Polish Tax Regulation also incorporates the General Anti-Abuse Clause (GAAR) which has been designed to prevent the creation and use of artificial legal structures to avoid taxation. The GAAR clause needs to be used in the case of transactions made after it entered into force as well as transactions completed beforehand which provided or still provide benefits after the clause's entry into force. As a result, the determination of deferred tax liabilities, assets and liabilities may require significant judgment, including with respect to transactions that have already occurred, and the amounts presented and disclosed in the financial statements may change in the future as a result of audits by tax authorities. The probability of settling a tax asset against future taxable profits is based on the Company's budget as approved by its Management Board. If the projected financial result implies that the Company will generate sufficient taxable income, then deferred tax assets will be recognized fully.

<u>COVID-19 impact on material accounting judgments and estimates</u>

In the context of the ongoing COVID-19 pandemic, the Management Board has reviewed key areas that demand accounting judgments and estimates. In particular, financial budgets and forecasts, going concern assumptions, and the assumptions underlying the goodwill / intangible asset impairment test were analyzed (Notes 2.1 and 2.7). It has been resolved that the coming quarters will see the impact of the global pandemic not to be so significant any more on the Group's operations. After a major decline in the medical test turnover observed in April 2020, the Group observed a slow increase in the number of tests starting from May 2020 onwards as a result of the gradual melting of the economy and certain efforts taken by Medi-Lynx. In 2021, despite another wave of pandemic arriving, the number of reimbursement claims filed remained stable. Therefore, in the opinion of the Management Board and given the progressing vaccinations as well as no further restrictions planned, the impact of the pandemic will no longer be significant on the volume of reimbursement claims filed in the U.S. and the development of the Group's business in other markets.

2.7. Asset impairment testing

According to IAS, the Company is required to assess at each balance sheet date whether there are any indications for asset impairment. At the same time, the standard requires an annual impairment test to be performed on goodwill and intangible assets with indefinite useful life. As of December 31, 2021, the Issuer's Management Board identified certain asset impairment indicators under IAS 36.

Accordingly, the Company performed impairment tests which implied the need to recognize an impairment loss. The impairment tests have been carried out based on updated estimates prepared by the Issuer's Management Board and assume that the conditions referred to in Note 2.1) are met.

The fact that such indicators occurred and impairment losses needed to be applied when modifying the valuation methods resulted from, among others, the circumstances described in the Issuer's Current Report 6/2022.

The current financial position of the Parent as well as the whole Capital Group gives rise to significant uncertainty as to its ability to continue as a going concern (more details in Note 2.1), and it is the basis for the impairment testing of assets and modification of the valuation methods applied to the tested assets.

If there is significant uncertainty as to the ability to continue as a going concern, assets need to be measured at amounts that do not exceed their recoverable amount, i.e. the fair value less costs to sell.

As of the balance sheet date, an impairment test was performed based on MDG Holdco's adjusted net assets to determine the fair value of its interest in Medi-Lynx and applying it to the carrying value of MDG's assets related to its interest in MDG Holdco. The results of the test were the reason to review the credit risk under IFRS 9 concerning the financial assets related to MDG Holdco (loans lent) and Medi-Lynx (receivables). The credit risk associated with these financial instruments has increased significantly, and therefore the Company has measured and recorded an allowance for expected credit losses. Details of the tests and estimates are described below.

<u>Medi-Lynx CGU:</u>

Fair value less costs to sell was used as the recoverable amount of Medi-Lynx CGU. As described in Note 4.1, one of the scenarios currently being considered by the Management Board is the sale of the entire Medi-Lynx business.

Under IFRS 13, the determination of fair value is based on an estimate of the price for an asset that would be achieved in an asset/liability transfer transaction conducted under normal market conditions between market participants at the date of the measurement and under the current market conditions. An entity determines the fair value of an asset or a liability based on such assumptions that market participants would use to determine the price of the asset or the liability, and that they are acting in their best economic interest.

Such fair value measurement techniques are used that are appropriate to the circumstances and for which sufficient data is available in order to determine fair value, with maximized use of relevant observable inputs and minimized use of unobservable inputs. Three commonly used valuation techniques are the market approach, the cost approach and the income approach. Two valuation techniques were used and assigned weights to estimate the fair value of Medi-Lynx CGU: the income approach (66.7% weight) and the market approach (33.3% weight):

<u>Income approach (two variants of 33.3% each, total weight of 66.7%:</u>

The income approach is based on conversion of future amounts (e.g., cash flows or income and expenses) to a single current (i.e. discounted) amount. The Management Board used unobservable inputs in this approach. Unobservable inputs are used to determine fair value to the extent that relevant observable inputs are not available.

Basic assumptions used in the income approach:

- The Management Board developed unobservable inputs using the best information available under the circumstances, which included the entity's own data, however taking into account all reasonably available information about the assumptions made by market participants. Unobservable inputs are considered assumptions of market participants that fit the purpose of fair value determination.
- In particular, it was resolved that Medi-Lynx's gross margin realized on the supply of services would be subject to evaluation by market participants.
    - The gross margin was determined based on the arithmetic mean of the Management Board's current baseline and conservative projections for 2022. Conservatively, no increases between 2023 and 2026 were assumed.
    - In the calculation of the gross margin realized on the supply of services, costs directly related to the planned revenue were taken into account (including costs of PocketECG system maintenance, costs of new equipment and repairs, deliveries, costs of monitoring, costs of billing system, payroll of departments directly involved in the supply of the services).
    - Two variant models were assumed, with weights of 33.3% each (66.7% total), which differed only in the level of PocketECG system support costs (cost of services supplied by MDG SA to Medi-Lynx). These costs were set at 50% or 75% of the currently billed costs for these services (in the two variants of this approach).
- A discount rate based on the weighted average cost of capital and reflecting current market assessments of the time value of money and the risks associated with the cash-generating unit's operations. For the purpose of the test, WACC 21.4% was used as the discount rate. To calculate the discount rate, a risk-free rate (RFR) of 1.94%, an equity risk premium (ERP) of 5.5%, a specific risk premium of 12.3%, and an unleveraged beta factor of 0.94x were applied.

- The growth rate after the forecast period was decided by an expert (who performed the December 31, 2020 valuation) at a level of 3%. The market for the services offered by Medi-Lynx is expected to grow, and the main factors driving the growth will be primarily the aging of the U.S. population and the observable trend of higher incidence of cardiovascular diseases. A change in the arrhythmia testing trends towards remote diagnosis technology, increase in investments in early arrhythmia detection, technological advancements in the industry, and favorable regulatory policies are also expected to be factors driving the market growth.

Market approach (33.3% weight):

Valuation techniques consistent with the market approach are based on the use of market multipliers derived from a set of comparable data. Selecting the appropriate multiplier within a specific range requires judgment which considers qualitative and quantitative factors that are specific to the valuation.

Basic assumptions used in the income approach:

- In this technique, transactions occurred in the medical technology market from recent years were analyzed. In the observed transactions, Revenue/EV multipliers ranged from 0.38x (Medi-Lynx's 2016 acquisition of Ami/Spectcor) to 12.2x (HillRoom's acquisition of BardDX). Taking into account the best possible comparability of transactions (including the circumstances of sale/lack of sale of IP, risks such as the going concern risk) and the current financial situation of the Group, it was resolved that the minimum observed multiplier would be appropriate to estimate the fair value of Medi-Lynx CGU.
- Medi-Lynx revenue used in the market approach valuation was determined as USD 30.1 million based on the arithmetic mean of the Management Board's current baseline and conservative projections for 2022.

Summary of Medi-Lynx CGU test:

Method	Valuation (PLN '000)	Importance	Result (PLN '000)
Market approach	46 419	33,3%	15 473
Income approach I	94 815	33,3%	31 605
Income approach II	56 952	33,4%	18 984
Cash – debt finance			4 282
Holdco’s net assets			(6 910)
Fair value			63 434
Costs to sell			(15 569)
Recoverable amount			**47 865**
Balance sheet value			206 348
Impairment			**(158 483)**

MDG CGU:

The impairment test covered the other assets of MDG S.A. In the opinion of the Management Board, other non-current assets, including IP and R&D (mainly intangible assets: costs of completed development work, development work in progress), property, plant & equipment used for this business, and the PocketECG production make a cash-generating unit that is subject to an impairment review (MGD CGU).

Fair value less costs to sell was used as the recoverable amount of MDG CGU. As described in Note 2.1, one of the scenario currently being considered by the Management Board is the sale of all or some MDG assets, including IP.

As there is no data available on comparable transactions, only the income approach was applied to estimate fair value.

Income approach (100% weight):

The income approach is based on conversion of future amounts (e.g., cash flows or income and expenses) to a single current (i.e. discounted) amount. The Management Board used unobservable inputs in this approach.

Basic assumptions used in the income approach:

- The Management Board developed unobservable inputs using the best information available under the circumstances, which included the entity's own data, however taking into account all reasonably available information about the assumptions made by market participants. Unobservable inputs are considered assumptions of market participants that fit the purpose of fair value determination.

- The fair value estimation featured two scenarios, each weighed at 50%:
  - Scenario 1 assumes that Medi-Lynx is sold, but MDG SA continues to operate by supporting Medi-Lynx for 12 months, bearing all associated expenses and receiving the revenue.
  - Scenario 2 assumes that MDG SA continues to operate without any assistance provided to Medi-Lynx and bearing no associated expenses and gaining no revenue.
- The two scenarios assume average annual growth of the non-US market (OUS) at the historically observed level, i.e. 20-25% (102% until 2026).
- Overhead expenses were trimmed in the calculation of streams. Costs that directly contribute to the growth of the OUS market and the achievement of targeted streams have been included.
- Also included were expenditures needed to complete core R&D projects in progress (NextGen, Techbot, Patch).
- Manufacturing expenditures for Pocket ECG devices related to Medi-Lynx and the global market were taken into account.
- A discount rate based on the weighted average cost of capital and reflecting current market assessments of the time value of money and the risks associated with the cash-generating unit's operations. For the purpose of the test, WACC 21.4% was used as the discount rate. To calculate the discount rate, a risk-free rate (RFR) of 1.94%, an equity risk premium (ERP) of 5.5%, a specific risk premium of 12.3%, and an unleveraged beta factor of 0.94x were applied.
- The growth rate after the forecast period was decided at a level of 3%. The market is expected to grow similarly to the case of Medi-Lynx. Likewise with the main factors that drive the growth – these will be primarily the aging of the population and the observable trend of higher incidence of cardiovascular diseases. A change in the arrhythmia testing trends towards remote diagnosis technology, increase in investments in early arrhythmia detection, technological advancements in the industry, and favorable regulatory policies are also expected to be factors driving the market growth.

Summary of the impairment test:

Method	Valuation (PLN '000)	Importance	Result (PLN '000)
Income approach I	15 702	50%	7 851
Income approach II	13 230	50%	6 615
Cash – debt finance			(728)
Fair value			13 738
Costs to sell			(2 191)
Recoverable amount			**11 548**
Balance sheet value			33 285
Impairment			**(21 737)**

The impact of the impairment tests of non-current assets (conducted on December 31, 2021) and of the estimated credit losses on respective items in the statement of financial position and the statement of comprehensive income is presented below:

(PLN '000)	Carrying amount (before adjustment)	Increase of impairment loss	Carrying amount recoverable / P&L item
Intangible assets	25 444	(21 737)	3 707
Financial assets	75 980	(75 883)	97
Shares in subsidiaries	80 549	(79 100)	1 450
Non-current assets	184 990	(176 720)	8 270
Trade and other receivables	57 458	(3 500)	53 958
Current assets	65 302	(3 500)	61 802
Revenue from sales	46 192	0	46 192
Other operating expenses	(321)	(25 238)	(25 558)
Finance costs	(15 917)	(154 983)	(170 900)
EBITDA	16 069	(25 238)	(9 169)
Net profit	7 851	(180 220)	(172 369)

As a result of the tests performed as of June 30, 2021, an impairment of the interest held in subsidiary MDG Holdco was identified and a related adjustment of shares was written down in the amount of PLN 15.7 million. As a result of the impairment test and the estimation of the credit risk (as of December 31, 2021), the value of the adjustment written down was further increased by PLN 79.1 million, and a new adjustment was applied to write down PLN 75.9 million from the value of loans lent to MDG Holdco, plus an adjustment of the value of receivables due from Medi-Lynx written down by PLN 3.5 million. At the same time, MDG CGU was recognized as impaired and an impairment loss in its intangible assets was recognized at PLN 21.7 million. Together with the tests performed as of June 30, 2021, the total amount of adjustments written down in 2021 was PLN 195.9 million.

2.8. Approver of financial statements

The corporate body approving the publication of these financial statements is the Management Board of the Company.

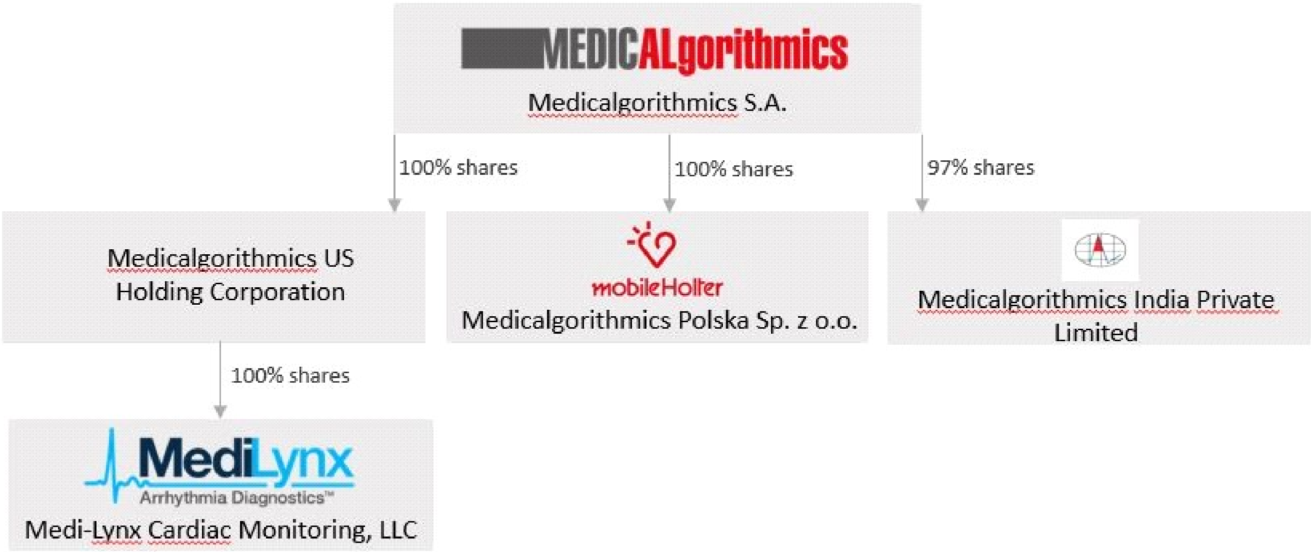
2.9. Information about the Medicalgorithmics Capital Group

The Company is the parent company ("Parent") of the Capital Group. Medicalgorithmics Capital Group consists of Medicalgorithmics S.A. – the Parent, and its subsidiaries.

The Parent owns:

- 100% shares in Medicalgorithmics US Holding Corporation ("MDG HoldCo"), representing 100% votes at the General Meeting;
- 100% shares in Medicalgorithmics Polska Sp. z o.o. ("Medicalgorithmics Polska", "MDG Polska");
- 100% shares in Medi-Lynx Cardiac Monitoring, LLC ("Medi-Lynx") based in Plano, Texas, through MDG HoldCo;
- 97% shares in Medicalgorithmics India Private Limited ("MDG India") based in Bengaluru, India.

The composition of Medicalgorithmics Capital Group and its organizational/equity links as of December 31, 2021 were as follows:



The primary business areas of the Group are:

- ECG monitoring services;
- information technology services;
- scientific research and development;
- manufacturing electrical equipment for medicine.

The Group’s services are available in several countries and continents of the world, including North America, Europe, Asia and Australia. Currently, the largest market is U.S.A. Its sales growth there has been driven by the US market’s openness to medical innovation and high reimbursement by private and public insurers offered for cardiac diagnostic services.

The Group's main competitive advantages are:

- advanced technology in mobile cardiac telemetry;
- a flexible business model adapted to the intrinsic specificity of a given market;
- a team of high-level professionals in the area of IT systems, programming, medical devices, digital signal processing, and project management.

3. Significant accounting policies

The accounting policies described below have been applied to all periods presented in these financial statements of the Company.

3.1. Property, plant and equipment

Tangible non-current assets (property, plant & equipment) are recognized based on the acquisition price or production cost less adjustments for depreciation and impairment loss. Land is not depreciable. Property, plant and equipment include own non-current assets, investments in third-party non-current assets, non-current assets under construction and third-party non-current assets accepted for the Company’s use (application of IFRS 16 is described in section 3.2. Leases), and they are assets used in the supply of goods or services, for administrative purposes or for the purpose of renting them to third parties, with an expected useful life over one year. The acquisition price or generation cost includes expenses incurred towards acquisition or generation of property, plant and equipment, including capitalized interest accrued until such asset is put to use. Expenditures incurred afterwards will be included in the carrying amount insofar as it is probable that the Company's will gain economic benefits. The cost of the day-to-day maintenance of property, plant and equipment is recognized in profit or loss of the current period.

The acquisition price or the generation cost of a PP&E asset is made of its purchase price (including import duties and non-refundable purchase taxes) less any trade discounts and rebates, all other directly attributable costs as may have been incurred to adapt the asset to the site and condition as necessary in order to start using it as intended by management, as well as the estimated costs of dismantling and removing the asset as well as restituting the site where it was located, to the extent such costs are required from the Company. Property, plant and equipment (except for non-current assets under construction and land) are depreciable. Depreciation is based on the acquisition price / generation cost less residual value, according to the useful life of the asset assumed by the Company (and reviewed periodically). Depreciation is applied from the time when an asset becomes available for use and until the earlier of the following dates: when the asset becomes classified as held for sale, derecognized, its residual value exceeds its carrying amount, or the asset has been completely depreciated.

The Company assumes the following periods of use of the respective non-current asset (PP&E) classes:

Buildings and structures: from 10 to 50 years;
Plant and machinery: from 5 to 25 years;
Vehicles: from 3 to 10 years;
Equipment: from 5 to 10 years;
Computer hardware: up to 3 years.

Investments in third-party non-current assets and ROU under leases: the period remaining until expiry of the agreement, unless the economic useful life is shorter (more details in section 3.2. Leases).

Gains and losses on derecognition of a PP&E item are determined as the difference between the net proceeds on its disposal and the carrying amount, and are recognized in profit or loss, according to IFRS 15.

3.2. Leases

The Company has been applying IFRS 16 since January 1, 2019. An arrangement qualifies as a lease as long as the lessee enjoys the right to control the use of a defined asset. IFRS 16 *Leases* established rules for the recognition, measurement, presentation and disclosure of leases. The Company assesses at the beginning of such arrangement whether it qualifies as a lease or contains elements of lease, namely whether the arrangement conveys the right to control the use of a specific asset through a certain period in exchange for a certain consideration. The Company applies a recognition and measurement policy towards all leases, except for short-term ones and low-value assets.

The Company recognizes liabilities for lease payments and right-of-use assets that enjoy the right to use the underlying assets. According to its analysis, the Company identified two major categories of leases:

- real properties: office;
- other leases: cars.

Since January 1, 2019, the Company (as lessee) has been recognizing all identified leases based on a single model according to which the statement of financial position discloses an asset from the right of use of the leased asset in connection with a liability under the lease.

At the initial recognition, the Company (as lessee) recognizes lease liabilities measured at the present value of the outstanding lease payments as well as right-of-use assets at the amount equivalent to lease liabilities. In the calculation of the present value of lease payments, the Company uses the lessee's incremental interest rate at the inception of the lease in the event the lease interest rate cannot be readily determined. After the inception, the amount of lease liabilities is increased to reflect the interest and decreased by any lease payments already made. In addition, the carrying amount of lease liabilities is remeasured whenever there is a change of the lease period, a change of essentially fixed lease payments, or a change in judgment regarding the acquisition of the underlying assets. The exemption under IFRS 16 is applies to leases of low-value assets and to short-term leases. Payments relating to such leases are recognized as an expense in profit or loss on a straight-line basis over the lease period.

After the initial recognition, assets are measured based on the cost model (i.e. initial value less depreciation). Interest on lease liabilities is recognized in profit or loss, except when the interest qualifies for capitalization in the carrying amount of the asset under construction that is financed by such liability.

The Company has elected to include right-of-use assets in the same reporting line where assets would be presented if owned by the lessee. This means that right-of-use assets are presented in the Property, Plant & Equipment item.

3.3. Intangible assets

The Company recognizes intangible assets only when:

a) probable that future economic benefits attributable to a given asset will be obtained by the Company, and
b) the acquisition price / generation cost of the asset can be measured reliably.

At the initial recognition, an intangible asset is measured at its acquisition price or its generation cost. Intangible assets are amortizable. Amortization rates were determined taking into account the economic useful life of intangible assets. Intangible assets are amortized on a straight-line basis over the following periods:

Completed development work: from 2 to 10 years;
Economic copyrights – licenses: from 2 to 5 years.

Research expenditures are recognized as expense at the time when incurred. Development expenditures incurred prior to the start of production or prior to application of new technology solutions are classified as intangible assets as long as the Company is able to prove:

- its ability (from a technical perspective) to complete the intangible asset so that it is fit for use or sale;
- its intent to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate the probable economic benefits. Among other things, the Company needs to prove that there is a market for products arising from the intangible asset or for the intangible asset itself, or (if the intangible asset is intended for the Company's use) the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the ability to reliably measure the expenditure incurred during the development attributable to that intangible asset.

Costs of development work that has a predefined useful life are amortizable. Depreciation begins when an asset is ready for use and ends when it becomes classified as held for sale or is no longer recognized in books at all.
The amortization period is equal to the economic useful life of the asset held.

The assumed period and method of amortization of development costs are reviewed at least at the end of every financial year. Development costs are amortized over the expected period when revenue from product sales will be generated. The Company does not amortize costs of development work that has an indefinite useful life.

Intangible assets with indefinite useful lives are tested for impairment on annual basis, according to the guidelines of IAS 36 "Impairment of Assets".

Costs of external borrowings (e.g. interest on loans and credit facilities taken, and foreign exchange differences on those expressed in foreign currencies) that are directly attributable to the acquisition or generation of an asset are added to the cost of that asset. Net financing costs include interest payable on debt based on the effective interest rate, interest receivable on cash invested by the Company, dividends payable, foreign exchange gains / losses and gains / losses on hedging instruments which are recognized in the income statement.

3.4. Inventories

Inventory items are measured at purchase cost or production cost not higher than the net realizable sales price.

The net realizable sales price is the difference between the estimated sale price achieved in the course of business and the estimated costs of completion and costs necessary to bring the sale transaction to effect. The Company uses the FIFO method for value measurement of inventories and their disbursement.

3.5. Financial assets

Financial assets are classified based on the following categories:

a) measured at amortized cost;
b) measured at fair value through profit or loss;
c) measured at fair value through other comprehensive income.

The Company classifies its investments in debt instruments into a particular asset category based on its business model for financial asset group management and based on characteristics of contractual cash flows related to a particular financial asset. Financial assets are classified at their initial recognition and it can be changed only if the business model for the financial asset management changes, as well. The key models for the financial asset management include holding of assets to receive cash flows from contracts, holding of assets to receive cash flows from contracts and sale, and holding of assets for other purposes than in the case of the two previous models (generally, the last model means holding of assets to dispose of them). The Company adopted a principle according to which the sale of a financial asset just before its maturity does not constitute a change of the business model from holding to receive contractual cash flows into holding to receive cash flows from contracts and sale / holding for other purposes.

Financial assets are derecognized when the rights to receive cash flows from them expire or when the Company transfers such rights to a third party while simultaneously transferring substantially all risks and benefits of their ownership.

a. Financial assets at amortized cost

A financial asset is classified as measured at amortized cost if the following two conditions are satisfied:

a) the asset is maintained in line with a business model according to which financial assets are held for contractual cash flows; and
b) the contract terms lead to cash flows arising at specified times, which are solely repayments of the principal sum and interest on the outstanding portion of the principal.

The Company classifies loans granted, trade receivables and other receivables that fit under IFRS 9 for the measurement at amortized cost. The Company measures financial assets at amortized cost by using the effective interest rate method. Long-term receivables that are subject to IFRS 9 are discounted at the balance sheet date. Trade receivables with a maturity shorter than 12 months are measured at their nominal value less expected credit losses (as the discounting effect is insignificant).

b. Financial assets at fair value through profit or loss

Short-term financial assets measured at fair value through profit or loss include assets acquired to realize economic benefits arising from short-term price fluctuations. Short-term financial assets are initially recognized at fair value and measured at fair value on the balance sheet date. Gains or losses from the financial asset measurements are recognized in the income statement as financial income or expense. In the category of financial assets measured at fair value through profit or loss, the Company includes short-term investments in securities, including acquired units of investment funds.

c. Financial assets at fair value through other comprehensive income

The Company recognizes gains/losses on measurement of investments in debt and equity instruments (which the Company classified into this asset categories at the initial recognition) in other comprehensive income. In profit or loss, the Company recognizes dividends from equity instruments measured at fair value through other comprehensive income – as revenue. As of the balance sheet date, the Company has not classified any financial assets into this category.

3.6. Non-derivative financial liabilities

Debt instruments issued and subordinated liabilities are recognized by the Company on the date they are originated. All other financial liabilities, including those measured at fair value through profit or loss, are recognized on the trade date, i.e. the day on which the Company becomes a party to a contract obliging to issue a given financial instrument. The Company derecognizes a financial liability when it becomes repaid, cancelled or time barred. Financial assets and liabilities are offset against each other and reported in the statement of financial position on a net basis, however only insofar as the Company holds a legally effective right to offset certain financial assets and liabilities, or intends to settle a given transaction using the net amount of certain financial assets and liabilities to be offset, or intends to realize the financial assets to be offset and settle the financial liabilities. The Company classifies non-derivative financial liabilities in the measured at amortized cost category. These financial liabilities are initially recognized at fair value plus directly attributable transaction costs. After their initial recognition, the liabilities are measured at amortized cost using the effective interest method.

3.7. Valuation of shares in subordinates

Interest in subsidiaries are measured based on the acquisition price less impairment adjustments written down. The acquisition price for subsidiary shares acquired in exchange for a contribution in kind is determined based on the carrying value of the contributed items as of the date of such contribution.

3.8. Asset impairment adjustments

Financial assets (including receivables)

At the end of every reporting period, the Company estimates expected credit losses on the value o financial assets that are measured and non-measured at fair value through profit or loss.

The Company uses the following approaches to estimate the impairment losses on financial assets:

- general approach;
- simplified approach.

The Company applies the general approach to financial assets which are measured at fair value through other comprehensive income and to financial assets which are measured at amortized cost, except for trade receivables. In the general approach, the Company estimates the impairment loss on financial assets using a three-stage model that is based on the change in the credit risk of the financial assets since their initial recognition. If the credit risk of a financial asset has not increased significantly since its initial recognition (step 1), the Company estimates the impairment loss over a 12-month period. If the Company identifies a significant increase in the credit risk of the financial asset (steps 2 and 2), the impairment loss is estimated over the life of the financial asset. For financial assets with identified impairment (step 3), the adjustment is estimated based on the expected credit loss. At every reporting date, the Company analyzes potential indicators of significant increase of the credit risk on its financial assets.

Since the Company's trade receivables do not have a significant financing component, the Company applies a simplified approach to them and does not monitor credit risk changes over the life of asset, with any impairment losses on trade receivables being calculated based on the expected credit losses over the life of financial instrument. The Company estimates expected credit losses related to trade receivables using a case-by-case approach and a ratio-based approach taking into account historical repayment data. The Company regularly reviews its methodologies and assumptions used to estimate expected credit losses in order to reduce any differences as may arise between estimates and actual credit loss data. Impairment losses are adjusted on every reporting date.

Non-financial assets

The carrying amount of non-financial assets other than inventories and deferred tax assets is reviewed at the end of every reporting period in order to verify whether there are indicators of impairment. If the indicators of the impairment occur, the Company will estimate the recoverable value of the respective assets.

The recoverable value of assets is the greater of: net value of the assets realizable from their sale or their value in use. An impairment loss adjustment is written down at the time when the carrying amount of an asset exceeds its recoverable value. Impairment loss adjustments are recognized through profit or loss in the current period.

The adjustment for goodwill impairment is not reversed. With respect to other assets, impairment adjustments recognized in previous periods are reviewed at the end of every reporting period to verify whether there are indicators of impairment or full reversal of the impairment. An impairment adjustment is reversible when estimations have changed that were used to assess its recoverable value. An impairment adjustment is reversible only up to such asset carrying amount (less depreciation/amortization adjustments) that would be posted, if the impairment adjustment has not been recognized.

3.9. Employee benefits

In the event of termination of employment, employees of the Company are entitled to certain benefits as provided for in the Polish labor law, including compensation for unused holiday leave, a provision for retirement gratuities, and compensation for the non-compete obligation towards the employer.

Accordingly, the Company creates provisions for future employee benefits on account of leave periods and unpaid equivalents that have not been consumed in previous periods. This provision is calculated by multiplying the number of PTO days by the daily cost of salary per employee.

The Company does not create provisions for jubilee awards as their impact is immaterial.

3.10. Provisions

A provision is recognized when the Company has a legal or customary obligation from past events, if such obligation can be reliably estimated and it is probable that its fulfilment will impact economic gains. Provisions are recognized at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the events and circumstances leading to the settlement of the obligation.

3.11. Cash and cash equivalents

Cash and cash equivalents include cash on hand, in bank, deposits and short-term securities with maturities of three months or less.

3.12. Equity

Equity reported in the Company's financial statements consists of:

a) The share capital authorized in the amount specified in the articles of association and filed with the court register;
b) The share premium (based on a price exceeding the nominal value of share) reported as a separate item in equity; Share issue costs reduce the total equity value;
c) Supplementary capital created as required by Polish Commercial Companies Code;
d) Retained earnings, which includes profit rolled over from prior years, unless already allocated to the supplementary capital, and profit or loss of the current financial period.

3.13. Revenue

IFRS 15 establishes the so-called Five Step Model for recognizing customer contract revenue. Under IFRS 15, the revenue is recognized to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Five Step Model:

Identification of a contract with a customer

The Company identifies a given customer contract if it meets the IFRS 15 definition, namely when all the criteria are met: the contracting parties have entered into a contract and are obligated to make their respective performances; The Company is able to identify rights of each party in the goods or services to be transferred; The Company is able to identify the terms of payment for the goods or services to be transferred; the contract has a commercial substance; and it is likely that the Company will receive the consideration to which it is entitled in exchange for the goods or services to be transferred to the customer.

Identification of performance obligations

In determining the transaction price, the Company takes into account the terms of the contract and any customary business practices. The transaction price is the value of consideration that the Company expects to receive in exchange for transferring the promised goods or services to the customer, less amounts collected on behalf of third parties (such as sales taxes, fuel duties, excise taxes). The consideration specified in the customer agreement may include fixed amounts, variable rates or both.

Determination of transaction price

In determining the transaction price, the Company takes into account the terms of the contract and any customary business practices. The transaction price is the value of consideration that the Company expects to receive in exchange for transferring the promised goods or services to the customer, less amounts collected on behalf of third parties (such as sales taxes, fuel duties, excise taxes). The consideration specified in the customer agreement may include fixed amounts, variable rates or both.

Transaction price allocation to respective performance obligations

The Company attributes the transaction price to each performance obligation (or a distinct good / service) based on an amount that reflects the value of consideration expected by it in exchange for transferring the promised goods or services to the customer.

Revenue recognition at fulfilment of performance obligation

The Company recognizes revenue at the time of (or during) the fulfilment of obligation to perform, namely the transfer of the promised good or service (i.e. the asset) to the customer (the customer gains control of the asset). The revenue is recognized in an amount equivalent the transaction price that has been allocated to the performance obligation.

The Company transfers the control of the good / service over time (thereby satisfying the performance obligation and recognizing the revenue over time), if one of the following conditions is met:

- the customer simultaneously receives and consumes the benefits provided over the period of the performance;
- as a result of its completion, the performance causes creation or enhancement of an asset that the customer gains control of (over the period of its creation or enhancement);
- the performance does not result in an asset that would have an alternative use for the Company, and the Company has an enforceable right to payment in exchange for the performance rendered so far.

The Company operates in the sector of advanced telemetry for medicine and provides solutions for cardiac diagnostics, especially in ECG signal analysis. The Company's primary source of revenue is the sale of PocketECG system. The Company operates using a subscription model, namely it earns revenue from equipment sales and then from subscriptions of users who sue the equipment as well as the related software and server infrastructure. In its records, the Company distinguishes:

- revenue from PocketECG device sales;
- revenues from subscriptions (under strategic partnerships.

In the opinion of the Management Board, according to the commercial substance of its contracts, the sale of the equipment and the services (PocketECG system maintenance) make a single performance obligation (benefits of PocketECG device are significantly dependent on the ability to use the software and server infrastructure, and it would be impossible to use the IT infrastructure without the device).

The Company transfers the control of the system over time, thereby satisfying the performance obligation and recognizing the revenue over time, as well. The Company determines the extent to which a performance obligation has been fulfilled using methods that are based on the expenditures incurred.

The measurement of revenue is based on the agreed transaction price that the Company expects to receive in exchange for the transfer of promised goods or services to a customer, excluding amounts withheld for third parties. Transaction price - the estimated transaction price reflects a reliable estimate of the expected remuneration under the contract based on the Company's past experience and ability to perform such services (Note 5); The estimated transaction price also takes into account all expectations regarding the value of consideration that are known to the entity in view of the contractual and business circumstances at the time, in exchange for the transfer of goods or services, including those resulting in price concessions.

As a rule, the Company's contracts with its business partners do not contain any elements that would cause volatility of the consideration (i.e. discounts, price concessions, bonuses, etc.). Each contract is analyzed in terms of variable parts of consideration and, if such a clause exists, in the transaction price the Company will include the variable part with respect to which it is highly likely that there will be no need to adjust any material portion of revenue in the future.

A reliable estimate of the transaction price is reviewed at each balance sheet date.

3.14. Finance income and costs

Financial income includes interest income related to funds invested by the Company, fair value measurements of instruments subject to such measurement, and realized differences between the acquisition value and the sales or exchange price of financial assets measured at fair value through profit or loss. Interest income is recognized as a current period gain or loss on an accrual basis using the effective interest method. Income from fair value valuation (including of realized transactions) is recognized as a current period gain or loss on an accrual basis using the effective interest method.

Finance costs include interest expense related to external financing, impairment losses on financial assets, and fair value measurements of instruments that need such measurement.

Foreign exchange gains and losses are reported on a net basis in the financial income and expense items to which they relate.

3.15. Income tax

Deferred income tax assets and provisions are offset when the Company holds an enforceable legal title to apply such offsetting of current tax liabilities and assets as well as on such condition that the deferred tax assets and provisions concern the income tax imposed by the same tax authorities on the same taxable person(s) planning to settle income tax payables and receivables in net sums or simultaneously realize receivables and settle liabilities.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be deducted. Deferred tax assets are reviewed at every reporting date and reduced to the extent that it is no longer probable that the related tax gains can be realized.

Income tax includes current and deferred sums. The current and deferred income tax is recognized through profit or loss in the current period, except when it concerns merging units or items recognized directly in equity or other comprehensive income.

Current tax is the expected sum of income tax liabilities or receivables on the taxable income in the year, according to tax rates legally or factually applicable as of the reporting date as well as adjusted for tax liabilities related to previous years.

Deferred tax is recognized in relation to temporary differences between the balance sheet value of assets and liabilities and their values used for taxation purposes. Deferred tax is not recognized for temporary differences: on initial recognition of assets or liabilities from a transaction that is not a business merger and that affects neither profit/loss in the current period nor taxable income; related to investments in subsidiaries and jointly controlled units to the extent that it is not probable that they will be disposed of in the foreseeable future. In addition, no deferred tax is recognized on temporary differences arising from the initial recognition of goodwill. Deferred tax is measured at tax rates that are expected to be applied to temporary differences when they reverse, based on tax rates adopted in tax regulations legally or factually applicable until the reporting date.

4. Business segment reporting

The principal object of the Company’s activity is:

- ECG monitoring services;
- scientific research and development;
- manufacturing electrical equipment for medicine;
- information technology services.

The Company's business activity is operated mainly in Poland. The business is classified in a single segment, which includes both sale of diagnostic and IT services as well as equipment (products associated with the services).

The Company did not discontinue any operations during the period covered by this report. The existing going concern risk in the next period is described in Note 2.1.

For the purpose of identifying its operating segments, the Company applies IFRS 8 "Operating Segments". As required under IFRS 8, operating segments need to be identified based on internal reports that cover those elements of the Company that are subject regular review performed by those who decide resource allocations to a respective segment and who evaluate its financial performance. On this basis, the Company identifies only one operating segment that involves the supply of systemic and algorithmic solutions in cardiology diagnostics, particularly in the area of ECG signal analysis. This segment includes the sale of services and the supply of equipment in the area of cardiac diagnostics with a view to fulfilment of the above objectives.

As there is only one operating segment, the Company does not present financial data separately for different segments.

All of its assets and liabilities as well as revenues and expenses are allocated to this single segment. At the Company level, the Management Board does not review the results of operations in division to any other types of business activities nor does it have any distinct financial data.

However, in addition to its operating activity the Company is the parent company (“Parent”) and a holding company in the Medicalgorithmics Group. In connection with this function, the following items in the statement of financial position and statement of comprehensive income mainly relate to its holding and other (not related to services covered by its operating activity) activities):

- Investments in subsidiaries;
- Long-term financial assets (including loan lending);
- Financial revenue.

Other items in the statement of financial position and statement of comprehensive income mainly relate to its activities associated with the operating sale activity or are not allocated.

More information on operating segments is presented in the notes on financial risk management.

5. Sales revenue structure

By type	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Revenue from sales of services	36 130	45 321
Revenue from sales of devices	10 062	6 370
	46 192	**51 691**

By territory	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Domestic sales	891	300
Export sales	45 301	51 391
	46 192	**51 691**

The Company's revenues are generated mainly in USA (70% of revenues). Revenues generated in USA (sales to affiliate Medi-Lynx) declined 21% compared to 2020, primarily due to the adjustment of pricing policies to the current market reality.

6. Employee benefits

	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Remuneration	(10 289)	(8 463)
Social security and other benefits	(1 315)	(1 755)
	(11 604)	**(10 218)**

During the reporting period, the Company recorded an increase in salary and wages expense compared to the previous year. Lower costs were reported in 2020 because FTEs were temporarily reduced due to the first wave of the pandemic.

7. Third-party services

	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Lease and rental	(660)	(1 249)
Telecommunication and Internet services	(97)	(310)
IT services	(3 365)	(2 824)
Accounting and financial audit services	(695)	(565)
Advisory services	(1 475)	(967)
Transport and courier services	(276)	(152)
Marketing services	(33)	(53)
Other third-party services	(1 343)	(1 199)
	(7 944)	**(7 319)**

In 2021, the Company recorded an increase in costs of third-party services, compared to the comparable period. In 2021 as well as in the comparable period, a major part of rental and lease expenses was cloud storage services (PLN 604 thousand), which are not subject to recognition as leases under IFRS 16 (right of use and liability). In addition, the rent and lease item includes operating expenses related to office space rental and the cost of leasing low-value office equipment. IT services include software and IT maintenance consulting. A significant increase in expenses was observed for the consulting services, because the Company was preparing and consulting to procure finance (as informed in Current Report 6/2022). In addition, costs of transportation services were higher because of the increased sales of PocketECG in 2021.

8. Other operating income and expenses

	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Settlement of subsidies	-	3
Compensation received	135	-
Other	85	6
Other operating revenue	**220**	**9**
Inventory utilization	(27)	-
Impairment of intangible assets	(21 737)	(3 108)
Impairment losses on receivables	(3 558)	-
Other	(236)	(43)
Other operating expenses	**(25 558)**	**(3 151)**

As of the balance sheet date, the Management Board identified indications of potential impairment of non-current assets, thus an impairment test was performed. The conducted test has shown an impairment loss on intangible assets and they were adjusted by PLN 21.7 million. At the same time, the value of receivables from Medi-Lynx was adjusted by writing down PLN 3.5 million as a result of the credit risk assessment under IFRS 9. Details of the test are described in Note 2.7 to these financial statements.

9. Finance income and cost

	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Interest income	3 447	3 259
Foreign exchange differences	8 501	-
Other	111	
Finance income	**12 059**	**3 259**
Interest on leases	(67)	(83)
Interest on debt	(176)	(185)
Impairment of financial assets (loans granted to MDG Holdco)	(75 883)	-
Impairment of shares in MDG Holdco	(94 771)	-
Foreign exchange differences	-	(2 410)
Other	(4)	(58)
Finance costs	**(170 900)**	**(2 736)**
Net finance costs	**(158 841)**	**523**

As of June 30, 2021, the Management Board identified indications of impairment of the equity interest held in subsidiary MDG Holdco, thus an impairment test was performed. As a result of the tests performed as of June 30, 2021, a related adjustment of shares was written down in the amount of PLN 15.7 million. As a result of the impairment test and the estimation of credit risk (as of December 31, 2021), the value of the adjustment written down was further increased by PLN 79.1 million, and a new adjustment was applied to write down PLN 75.9 million from the value of loans lent to MDG Holdco. Details of impairment tests and credit risk estimates are presented in Note 2.7 of this report.

10. Effective tax rate

	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Profit before tax	(172 011)	21 784
Tax at the tax rate applicable in Poland	32 682	(4 139)
Non-tax-deductible costs	(281)	(246)
Loss on sales of investment certificates	(34 253)	-
Non-taxable revenue	17	1
Tax benefit due to the application of the IP BOX relief	449	3 621
Issue costs charged directly to capital (tax deductible)	111	109
Costs of abandoned development	313	-
Other	604	75
Tax reported in the statement of comprehensive income	**(358)**	**(579)**

11. Deferred tax assets and liabilities

	31.12.2021	31.12.2020
Valuation of loans at amortized cost	1 776	1 326
Settlement of expenditure on Research and Development	1 835	1 496
Foreign exchange differences on valuation of foreign-currency loans to a related entity	691	-
Valuation of receivables and liabilities	482	-
Other	173	170
Deferred tax liabilities	**4 957**	**2 992**

	31.12.2021	31.12.2020
Provision for costs	182	291
Foreign exchange differences on valuation of foreign-currency loans to a related entity	-	374
Valuation of receivables and liabilities	18	264
Costs of acquisition of Medi-Lynx *	339	339
Impairment loss on shares	2 978	-
Other	118	52
Gross deferred tax assets	**3 635**	**1 320**

** Included in the acquisition price of the Company for tax purposes and in current expenses for accounting purposes.*

	31.12.2021	31.12.2020
Change in deferred tax reported in the statement of comprehensive income	**350**	**(90)**
Change in deferred tax recognized directly in equity	**-**	**-**
Net deferred tax assets/liability of which:	**(1 322)**	**(1 672)**
Deferred tax assets	3 635	1 320
Deferred tax liabilities	(4 957)	(2 992)

12. Intangible assets

Gross value of intangible assets	Costs of completed development works	Development works in progress	Other	Total
Gross value as of 1 January 2021	**16 301**	**13 557**	**1 888**	**31 746**
Increases	-	5 872	96	**5 968**
Decreases	-	-	-	**-**
Gross value as of 31 December 2021	**16 301**	**19 429**	**1 984**	**37 714**
Accumulated amortization and impairment losses				
Accumulated amortization and impairment losses as of 1 January 2021	**8 090**	**-**	**1 432**	**9 522**
Amortization	2 591	-	157	**2 747**
Decreases - impairment losses	2 308	19 429	-	**21 737**
Accumulated amortization and impairment losses as of 31 December 2021	**12 989**	**19 429**	**1 589**	**34 007**
Net value				
As of 1 January 2021	**8 211**	**13 557**	**456**	**22 224**
As of 31 December 2021	**3 312**	**-**	**395**	**3 707**

Gross value of intangible assets	Costs of completed development works	Development works in progress	Other	Total
Gross value as of 1 January 2020	**9 768**	**18 674**	**1 822**	**30 264**
Increases	6 533	4 524	66	**11 123**
Decreases	-	(9 641)	-	**(9 641)**
Gross value as of 31 December 2020	**16 301**	**13 557**	**1 888**	**31 746**
Accumulated amortization and impairment losses				
Accumulated amortization and impairment losses as of 1 January 2020	**6 735**	**-**	**1 241**	**7 976**
Amortization	1 355	-	190	**1 545**
Accumulated amortization and impairment losses as of 31 December 2020	**8 090**	**-**	**1 432**	**9 522**
Net value				
As of 1 January 2020	**3 033**	**18 674**	**581**	**22 287**
As of 31 December 2020	**8 211**	**13 557**	**456**	**22 224**

Costs of completed development works

As of the balance sheet date, the Company capitalized as intangible assets the development expenditures incurred for the PocketECG system. It is currently the most advanced technology solution offered by the Company. Its key technological advantage lies in the integration (from previous two separate components) into one unique-design smartphone recorder that operates based on the Android platform. The Company is constantly developing and introducing new functionalities for the PocketECG system which allow maintaining a technological cutting edge to keep standing out among the competition.

The above development work was co-financed from European Union resources, already fully amortized in 2019. According to the Group policy, the value of received subsidies is recognized as accrued expenses and settled over time based on the amortization period of incurred development work expenditures.

In 2020, the Company completed the development work and began amortizing expenses incurred towards several major projects. Among other things, software upgrades were applied in the second quarter of 2020 to enable the PocketECG system to support the Extended Holter service, which became an official medical procedure starting in 2020 and is now reimbursed by both public and private insurers. In addition, significant security improvements have been made and a new software version was developed to support clinical trials of COVID-19 patients and drugs that help combat COVID-19 but may cause arrhythmia.

PocketECG IV, the fourth generation of the system, was launched in the fourth quarter of 2020. The PocketECG IV is a multi-channel device for the most advanced diagnostics and monitoring arrhythmias and ECG irregularities. The fourth generation primarily enables the PocketECG device to connect over LTE for more efficient transmission of a continuous ECG signal. PocketECG Connect was also completed - a software solution for end-to-end integration of servers in a hospital's network infrastructure. PocketECG Connect eliminates errors in patient data uploads and significantly facilitates a physician's access to reports which are now available in a hospital's own system.

Development works in progress

The Company is currently carrying out a number of development efforts to improve its present products and services as well as works on very new solutions. The main costs capitalized from the open development work are salary of the research and development staff.

Today, the key new development projects are:

- ECG TechBot - software that uses a set of algorithms for automatic analysis and interpretation of ECG signal based on deep learning methods.

In the ECG TechBot project, the research team continues to work on a set of algorithms for the automatic analysis and interpretation of ECG signal (algorithms dedicated to rhythm analysis, morphology classification, waveform detection). The ECG TechBot project is expected to enable full automation of the ECG analysis and interpretation processes. The algorithm system will allow verifying the heart rate analysis and the morphology classification. It will reduce the risk of human error in the verification process and optimize operations of the monitoring center.

ECG TechBot is co-financed by the Polish National Center for Research and Development (NCBiR) with public funds. The estimated total cost of project implementation as well as the total sum of expenses eligible for the funding is PLN 11,188 thousand, with the maximum value of co-financing allowed at the level of PLN 6,335 thousand.

- PatchECG - a device that enables single-channel offline monitoring.

In response to the demand of the U.S. market, the Company decided to supplement its offer with the PatchECG device. It is limited to one ECG channel and its functionally focuses on the ease of use, while providing good quantitative data over a period of 7-14 days. The most common application of such device is expected in diagnostics of atrial fibrillation and arrhythmias, for which ongoing monitoring is not required and having an intervention during the monitoring period is not essential. The other key application is testing that does not require several ECG channels. The PatchECG device will provide solutions that are eligible for reimbursement on the US market. Additional research and testing of the device are currently underway as needed to secure FDA successful evaluation of 510(k) application.

- NextGen – new software version for PocketECG;

The development work is underway on the new software for PocketECG, called NextGen. The delivery of the next generation PocketECG software is expected to yield enhanced productivity in ECG analysis and boost further software development, and it will provide a basis for adding functionalities dedicated to other user groups in the future.

In addition to the products described above, ongoing work is in progress on further new functionalities for the current PocketECG system that will maintain its technological cutting edge ahead of competing solutions.

As of the balance sheet date, the Management Board identified indications of potential impairment of non-current assets, thus an impairment test was performed. The conducted test has shown an impairment loss on intangible assets and they were adjusted by PLN 21.7 million.Details of the test are described in Note 2.7 to these financial statements.

MDG CGU allowance allocations to respective projects are shown below:

Project	Net value as of Dec. 31, 2021 before adjustment	Adjustments written down as of Dec. 31, 2021	Net value as of Dec. 31, 2021 adjusted	End date of amortization
PocketECG	1 755	(721)	1 034	Apr. 30, 2023
Extended Holter	290	(119)	171	Apr. 30, 2024
Pocket IV	2 786	(1 144)	1 642	Nov. 30, 2024
Connect	789	(324)	465	Oct. 31, 2024
Development work in progress	19 429	(19 429)	0	n/a

13. Tangible non-current assets (PP&E)

Gross value of property plant and equipment	Machinery and equipment including computer hardware	Vehicles	Other fixed assets	Leasehold improvements	Rights-of use (IFRS 16)	Total
Gross value as of 1 January 2021	**2 472**	**389**	**737**	**648**	**4 636**	**8 883**
Increases	236	-	-	-	513	**749**
Decreases	(82)	(389)	(41)	-	-	**(512)**
Gross value as of 31 December 2021	**2 626**	**-**	**696**	**648**	**5 150**	**9 120**
Accumulated depreciation and impairment losses						
Accumulated depreciation and impairment losses as of 1 January 2021	**1 709**	**240**	**627**	**330**	**2 038**	**4 943**
Amortization and depreciation	429	38	46	65	983	**1 562**
Decreases	(82)	(278)	(41)	-	-	**(401)**
Accumulated depreciation and impairment losses as of 31 December 2021	**2 056**	**(0)**	**632**	**395**	**3 021**	**6 104**
Net value						
As of 1 January 2021	**763**	**149**	**110**	**318**	**2 599**	**3 939**
As of 31 December 2021	**570**	**0**	**64**	**253**	**2 129**	**3 016**

Gross value of property plant and equipment	Machinery and equipment including computer hardware	Vehicles	Other fixed assets	Leasehold improvements	Rights-of use (IFRS 16)	Total
Gross value as of 1 January 2020	**2 179**	**389**	**737**	**648**	**4 751**	**8 704**
Increases	293	-	-	-	-	**293**
Decreases	-	-	-	-	(114)	**(114)**
Gross value as of 31 December 2019	**2 471**	**389**	**737**	**648**	**4 637**	**8 883**
Accumulated depreciation and impairment losses						
Accumulated depreciation and impairment losses as of 1 January 2020	**1 311**	**162**	**583**	**265**	**1 057**	**3 378**
Amortization and depreciation	398	78	44	65	981	**1 566**
Decreases	-	-	-	-	-	**-**
Accumulated depreciation and impairment losses as of 31 December 2020	**1 709**	**240**	**627**	**330**	**2 038**	**4 943**
Net value						
As of 1 January 2020	**868**	**227**	**155**	**383**	**3 694**	**5 327**
As of 31 December 2020	**763**	**149**	**110**	**319**	**2 599**	**3 939**

The Company identifies two major categories of leases: real property (leased offices) and other leases (vehicles). The Company's leases were not subject to modifications following the impact of COVID-19 pandemic.

14. Financial assets

	31.12.2021	31.12.2020
Loans granted	75 883	65 527
Impairment of financial assets	(75 883)	-
Shares	97	200
	97	**65 727**
of which long-term portion	97	65 727
of which short-term portion	-	-

Loans granted

	Loan amount (USD '000)	Repayment date	Interest rate
Loan of 30 March 2016	11 300	29.03.2026	Fixed (6%)
Loan of 1 June 2016	200	01.06.2026	Fixed (6%)
Loan of 14 September 2016	200	14.09.2026	Fixed (6%)
Loan of 16 January 2017	1 000	30.12.2026	Fixed (4%)
Loan of 2 March 2017	2 912	30.12.2026	Fixed (4%)
Loan of 28 January 2021	400	30.12.2026	Fixed (4%)
Total loans granted	16 012		
Impairment of loans granted	(16 012)		

All such loans were lent to subsidiary MDG HoldCo. Their purpose was to provide finance for the subsidiary's acquisition of 75% interest in Medi-Lynx, to feed capital into its operating activity, and to settle liabilities to AMI/Spectocor for its customer base acquired before.

In the first quarter of 2021, a loan of USD 400,000 was granted to settle the amount due to the seller of the Medi-Lynx shares, as mentioned in Note 15 of the consolidated financial statements as of December 31, 2021.

Loans are measured at amortized cost using the effective interest rate. Loans assume a one-time repayment of the principal and any accrued interest as of the maturity date of the loan.

As of December 31, 2021, the Management Board recognized an impairment loss on financial assets in the amount of PLN 75.9 million and applied a full adjustment by writing down the value of the loans.

15. Shares in subsidiaries

	31.12.2021	31.12.2020
Medicalgorithmics US Holding Corporation	94 771	94 771
Medicalgorithmics US Holding Corporation - impairment of shares	(94 771)	-
Medicalgorithmics Polska Sp. z o.o. (formerly: Kardiosystem Monitoring Sp. z o.o.)	1 267	1 267
Medicalgorithmics India Pvt. Ltd (formerly Algotel Solutions Pvt. Ltd)	183	183
	1 450	**96 221**

On December 31, 2020, Medicalgorithmics US Holding Corporation (through which the Company owned 75% interest in Medi-Lynx) entered into an agreement to acquire the remaining 25% stake in Medi-Lynx which had been previously outside of the Company's control. The seller of those shares was Medi-Lynx Monitoring Inc., a company wholly owned by Mr. Andrew Bogdan. By negotiations the Parties determined the purchase price for 25% interest in Medi-Lynx at USD 0.5 million (PLN 1,879 thousand).

As of June 30, 2021, the Management Board identified indications of impairment of the equity interest held in subsidiary MDG Holdco, thus an impairment test was performed. The conducted test has shown an impairment loss on shares and they were adjusted by PLN 15.7 million. The impairment test of December 31, 2021 lead to increase of the impairment loss by further PLN 79.1 million. Details of the test are described in Note 2.7 to these financial statements.

Selected financial data of subsidiaries as of December 31, 2021 in their functional currency:

Statement of financial position	**MDG HoldCo (USD '000)**	**Medi-Lynx (USD '000)**	**MDG Polska (PLN '000)**	**MDG India (USD '000)**
Non-current assets	55 294	17 323	210	3
Current assets	501	6 471	283	182
Equity	34 206	970	331	93
Long-term liabilities	18 111	3 820	3	-
Short-term liabilities	3 478	19 004	159	92
Statement of comprehensive income				
Sales revenue	-	20 556	1 594	230

16. Inventories

	31.12.2021	31.12.2020
Materials	6 697	3 396
Finished products	468	909
Impairment losses on inventories	(27)	-
	7 138	**4 305**

Inventories include components, semi-finished and finished products. Component purchases are made in relatively large batches, mostly at the beginning of the financial year, and then replenished as quantities fall below a safety threshold, to ensure production continuity. Inventories are regularly reviewed for impairment of their value and, if so, disposed of – the related charges are applied to the Company's expenses on an ongoing basis. As of December 31, 2021, the value of inventories was adjusted to PLN 27 thousand.

17. Receivables

	31.12.2021	31.12.2020
Trade receivables	50 301	33 293
Budgetary receivables	3 318	3 395
Other receivables	108	105
Prepayments and deferred expenses	231	476
	53 958	**37 269**
Long-term	-	-
Short-term	53 958	37 269

The high balance of trade receivables as of December 31, 2021 is due to the share of receivables from affiliate Medi-Lynx, which accounts for 95% of the total (PLN 47,865 thousand). These receivables have increased after providing support to improve Medi-Lynx's cash position during a low revenue period caused by the change in the business model as well as the COVID-19 pandemic.

The fair value of accounts receivable approximates their book value. The Company's exposure to credit risk and currency risk of receivables is presented in Note 23.

	31.12.2021	31.12.2020
Trade receivables from related entities	(51 526)	31 944
Impairment loss on receivables from related entities	(3 500)	-
Trade receivables from other entities	2 334	1 349
Impairment loss on receivables from other entities	(59)	-
Total net trade receivables	**50 301**	**33 293**

On December 31, 2021, the value of receivables from affiliate Medi-Lynx was adjusted by PLN 3.5 million. The amount of receivables from other entities was adjusted by writing down PLN 59 thousand.

The aging structure of trade receivables at the end of the reporting period is as follows:

	Gross value as of 31 December 2021	Impairment loss as o 31 December 2021	Gross value as of 31 December 2020	Impairment loss as of 31 December 2020
Non-matured	7 962	-	3 321	-
Past due 1-30 days	3 603	-	3 889	-
Past due 31-60 days	3 155	-	3 517	-
Past due more than 61 days	39 140	(3 559)	22 566	-
	53 860	**(3 559)**	**33 293**	**-**

Prepayments and deferred expenses

	31.12.2021	31.12.2020
Insurance policies and deposits	47	32
Subscriptions	25	29
Advisory services	19	-
Commissions	114	211
Other	26	204
Total prepayments and deferred expenses	**231**	**476**
Long-term portion	-	-
Short-term portion	231	476

18. Cash and cash equivalents

	31.12.2021	31.12.2020
Cash in hand	8	7
Cash at banks	275	399
Short-term deposits	423	423
	706	**829**

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are in Note 24 to the financial statements.

19. Equity

19.1. Share capital

	Ordinary shares ('000)	
	31.12.2021	31.12.2020
Number of shares at beginning of period	4 328	3 607
Issue of series G shares	-	721
Issue of series H shares	649	-
Number of fully-paid shares at end of period	**4 976**	**4 138**

19.2. Ordinary shares

On 26 October 2021, the Extraordinary General Meeting passed a resolution increasing the Company's share capital through issue of new ordinary bearer shares, series H.

On November 15, 2021, the decision was made to launch a public offer by private placement. The book-building process was carried out from November 15 to November 24, 2021, and subscription agreements for Series H Shares were concluded by December 3, 2021. There were 648,556 series H stocks issued at the issue price of PLN 18.00 per share. The total issue value was PLN 11.7 million. The resulting capital increase was registered by the District Court of Warsaw, on December 15, 2021. The issue cost was PLN 615 thousand and was charged directly to the supplementary capital of Medicalgorithmics S.A. The Company received the proceeds from the issue on December 16, 2021. For more information on share issues, please see Current Reports 43/2021, 48-50/2021, 52/2021, 54/2021 and 5/2022.

19.3. Dividends paid

In the financial year and the comparable period, no decision was made to pay dividends.

19.4. Basic and diluted earnings per share

	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Profit for the period (PLN '000)	(172 369)	21 205
Weighted average number of ordinary shares (in thousands of shares)	4 547	4 138
Effect of dilution of the potential number of ordinary shares (in thousands of shares)	-	-
Basic profit per share in PLN (net profit weighted average number of shares)	(37,91)	5,12
Diluted profit per share in PLN (net profit weighted average number of diluted shares)	(37,91)	5,12

19.5. Shareholding structure as of the date of publication of the financial statements

Shareholder	Number of shares	% of shares
Marek Dziubiński (President of the Management Board)	485 556	9,76%
NN OFE	608 592	12,23%
OFE PZU	721 689	14,50%
MIRI Capital	520 238	10,45%
Other shareholders	2 640 310	53,06%
Number of shares	**4 976 385**	**100,0%**

** based on the number of shares registered as a result of the share capital increase on 15.12.2021.*

In the reporting period the Company did not acquire any treasury shares and does not hold any treasury shares.

20. Provisions

	31.12.2021	31.12.2020
Holiday pay accrual	780	899
Retirement provision	105	-
	780	**899**
Long-term	105	899
Short-term	780	-

21. Credits and loans

On December 4, 2020, the Company opened an overdraft with Bank Millennium S.A. (PLN 16.0 million). As of the balance sheet date, the available credit line was PLN 9.4 million (April 30, 2022: PLN 6.0 million), including consumed PLN 1.4 million as of December 31, 2021 and PLN 4.7 million as of April 25, 2022. According to the credit facility agreement, the limit will be gradually reduced at a rate of PLN 860 thousand per month until the end of November 2022. The interest rate is a sum of WIBOR 1M reference rate and the bank's mark-up. In connection with the credit facility, a collateral was established – a deed of the Company's submission to statutory enforcement of debts in favor of the bank (according to Article 777 §1.5 of the Polish Civil Procedure Code), against all of the Company's assets, to secure its obligation to repay any and all monetary claims to the Bank as it may seek under the credit facility up to PLN 25.6 million. The credit facility is partly secured with a bank guarantee of PLN 12.8 million, valid until 28 February 2023, issued by Bank Gospodarstwa Krajowego based on a line of guarantee agreement with PLG-FGP Liquidity Guarantee Fund under the Polish government's Anti-Crisis Shield program. The guarantee secures 80% of the loan amount.

As described in Note 2.1, there is a risk of early repayment required that stems from the agreement itself which allows the Bank to terminate the agreement in the event of a material deterioration of the borrower's position or a loss of its creditworthiness, which the bank could recognize in the case of the Company's situation. Furthermore, in the event of any additional debt finance taken out by the Company the credit facility agreement requires that the bank be provided with the same security as the one given to the party providing such debt finance, and in certain transactions towards the potential financing which are currently being considered this could be impossible. Due to the uncertainty surrounding the timeframe and amounts of the future financing, the Group is negotiating with the bank options and conditions for deferred repayment without termination of the credit facility agreement and premature triggering of the due date.

22. Trade and other payables and accruals

	31.12.2021	31.12.2020
Trade liabilities to other entities	3 185	1 881
Budgetary liabilities	678	474
Salaries and wages payable	405	480
Other liabilities	72	153
	4 340	**2 988**
Short-term accruals and deferred income	46	242
Long-term accruals and deferred income	3 440	1 593

	7 826	**4 823**

Trade payables from other entities mainly consists of liabilities related to the purchase of components that are used in the manufacture of equipment, liabilities for the supply of IT services, and rental and lease liabilities.

Accruals include the value of subsidies received by the Company from the European Union funds for its development work.

Exposure to foreign currency and liquidity risks related to liabilities is presented in Note 24. The fair value of accounts payable approximates their book value.

23. Liabilities in respect of bonds and other financial liabilities

	Long-term	Short-term	Total
Value as of 1 January 2021	**1 953**	**875**	**2 828**
Finance lease liabilities - recognized as of 1 January 2021	-	(1 015)	(1 015)
Repayment of finance lease liabilities	-	67	67
Reclassification of finance lease liabilities	(707)	707	-
Other	-	434	434
Value as of 31 December 2021	**1 247**	**1 067**	**2 313**

Financial liabilities include financial lease liabilities resulting from the lease agreement for office space in Gdańsk and Warsaw.

24. Financial risk management

The Company is exposed to the following financial risks that stem from the use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk.

The Management Board is responsible for establishing and overseeing the Company's risk management.

The risk management policies are designed to identify and analyze risks to which the Company is exposed, set appropriate limits and controls, and to monitor risks and the extent to which their limits are matched. The risk management policies and systems are regularly reviewed in order to update them for any changes in market conditions and changes in the Company's operations.

This note presents risks classified as financial risks. An analysis of other risk factors is presented in the Management Report.

24.1. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is mainly connected with receivables and loans granted.

The Company continuously monitors the arrears of customers and creditors in settling payments, analyzing credit risk individually or as part of individual asset classes defined for credit risk (resulting, for example, from the industry, region or structure of recipients). In addition, as part of credit risk management, the Company enters into transactions with counterparties whose reliability has been confirmed.

The Company's exposure to credit risk results mainly from individual characteristics of each client. There was a concentration of credit risk in 2021. The largest counterparty generated jointly approx. 70% of the Company's sales revenue in 2021 (including the related entity Medi-Lynx).

As of 31 December 20201, receivables from the largest counterparty accounted for about 95% of total gross trade receivables. As described in Note 2.7 to this report, in connection with the asset impairment tests, the level of credit risk related to financial assets related to MDG Holdco (granted loans) and Medi-Lynx (receivables) was verified. The credit risk associated with this financial instrument has increased significantly, and therefore the Company has valuated and posted an allowance for expected credit losses. The description of tests and estimates is presented in Note 2.7 of this report.

Carrying amount of financial assets reflects the maximum exposure to credit risk. The maximum credit risk exposure at the end of the reporting period was as follows:

	31.12.2021	31.12.2020
Loans and receivables	50 169	102 321
Cash and cash equivalents	706	829
	50 875	**103 150**

The maximum credit risk exposure for loans and trade receivables at the end of the reporting period by geographical region and customer type was as follows:

	31.12.2021	31.12.2020
Poland	103	121
United States of America	47 865	31 761
Other regions	2 33	1 411
	50 301	**33 293**
Institutional clients	50 301	33 293

24.2. Liquidity risk

Liquidity risk is the risk that the Company will face difficulties in meeting its obligations that are associated with financial liabilities to be settled by outflow of cash or other financial assets.

Liquidity risk arising from uncertainty whether financing will be obtained is currently the key area of uncertainty that affects the Management Board's going concern assumption, in the context of the significant and material uncertainty surrounding the Company's ability to continue as a going concern in the next 12 months after the balance sheet date (for more details see Note 2.1).

The Company's liquidity management involves ensuring, to the greatest extent possible, that the Company always has sufficient liquidity to meet its outstanding liabilities, both under normal and emergency circumstances, without incurring unacceptable losses or undermining its own reputation.

31.12.2021	Carrying amount	Contractual cash flows	Less than 12 months	More than 12 months
Bank loans	1 394	1 394	1 394	-
Credit card debt	40	40	40	-
Trade and other liabilities	4 340	4 340	4 340	-
Finance lease liabilities	2 313	2 313	1 067	1 246
	8 087	**8 087**	**6 841**	**1 246**
31.12.2020				
Bank loans	2 807	2 807	2 807	-
Credit card debt	27	27	27	-
Trade and other liabilities	2 988	2 988	2 988	-
Bonds	2 828	2 828	875	1 953
	8 651	**8 651**	**6 697**	**1 953**

As further described in Note 2.1, according to the current assumptions the Group's cash requirement fits in the range of USD 4 - 6 million. As announced by the Issuer in Current Report 21/2022 of April 20, 2022, based on the conservative assumptions of the Management Board, the current cash position indicates the need to procure additional financing over an approximate horizon of two months, either in the form of debt finance or via sale of certain assets.

24.3. Market risk

Market risk is the risk that changes in market prices, for example foreign exchange rates and interest rates, will affect the Company's results or the value of financial instruments held. The objective of market risk management is to maintain and control the Company's exposure to market risk within assumed parameters, while seeking to optimize the rate of return.

In order to manage market risk, the Company may buy / sell derivative instruments and assume certain financial liabilities. All transactions take place within the policies established by the Company's Management Board.

Currency risk

The Company's exposure to foreign exchange risk at the end of the reporting period is as follows:

	31.12.2021			31.12.2020		
Values in PLN '000	**EUR**	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Trade receivables	906	49 438	-	531	32 544	-
Loans granted	-	-	-	-	65 527	-
Trade liabilities	(939)	(888)	(7)	(15)	(408)	(5)
Finance lease liabilities*	(2 313)	-	-	(2 828)	-	-
Gross balance sheet exposure	**(2 346)**	**48 550**	**(7)**	**(2 312)**	**97 664**	**(5)**

The Company's foreign exchange risk involves mainly the volatility of foreign currencies against the Polish zloty. The company generates vast majority of its revenues and a share of its expenses in foreign currencies. The dominant currency in the stream of revenues is USD. The Company's expenses towards component purchases for production exist in USD, EUR, GBP and PLN. On the other hand, costs of services are incurred mainly in PLN and USD.

During the year, the following exchange rates were used for the major foreign currencies:

	Average exchange rates		End of the reporting period	
	01.01.2021-31.12.2021	**01.01.2020-31.12.2020**	**31.12.2021**	**31.12.2020**
EUR	4,5775	4,4742	4,5994	4,6148
USD	3,8757	3,9045	4,0600	3,7584
GBP	5,3308	5,0240	5,4846	5,1327

Sensitivity analysis

The analysis is based on the assumption that exchange rate changes will remain at the most reasonable level possible at the end of the reporting period. The analysis also assumes that other variables, like interest rates, will remain constant. The following table includes examples of currencies and related changes expressed in percent:

Effect in PLN '000	**Equity**	**Profit or loss for current period**
31.12.2021		
EUR (appreciation of EUR by 5%)	(117)	(117)
USD (appreciation of USD by 5%)	2 427	2 427
31.12.2020		
EUR (appreciation of EUR by 5%)*	(116)	(116)
USD (appreciation of USD by 5%)	4 883	4 883

Weakening PLN in relation to USD (as of December 31, 2021), assuming other variables are constant, would result in increase of the current period profit. Weakening PLN in relation to EUR (as of December 31, 2021), assuming other variables are constant, would result in a lower profit of the current period.

Interest rate risk

At the end of the reporting period, the structure of floating rate financial instruments (interest bearing) was as follows:

	31.12.2021	31.12.2020
Credits and loans	1 434	2 834
	1 434	**2 834**

Sensitivity analysis of cash flows of financial instruments with floating interest rates

A 100 base point change of an interest rate would increase (decrease) equity and pre-tax earnings by the corresponding amounts shown below. The following analysis is based on the assumption that other variables, like exchange rates in particular, will remain constant.

	Profit or loss for current period		Equity	
Effect in PLN '000	Increase by 100 bps	Decrease by 100 bps	Increase by 100 bps	Decrease by 100 bps
31.12.2021				
Floating-rate financial instruments	(178)	178	(178)	178
Sensitivity of cash flows (net)	**(178)**	**178**	**(178)**	**178**
31.12.2020				
Floating-rate financial instruments	(109)	109	(109)	109
Sensitivity of cash flows (net)	**(109)**	**109**	**(109)**	**109**

Comparison of fair values with carrying amounts

The following table compares fair values of financial assets / liabilities to those recognized in the statement of financial position (PLN '000):

		31.12.2021		31.12.2020	
	Category according to IFRS	Carrying amount	Fair value	Carrying amount	Fair value
Loans granted	Financial assets at amortized cost	-	-	65 527	65 527
Trade and other receivables	Financial assets at amortized cost	53 958	53 958	37 269	37 269
Investment certificates bonds	Financial assets at fair value through profit or loss	-	-	-	-
Cash and cash equivalents	Financial assets at amortized cost	706	706	829	829
Trade and other liabilities	Other financial liabilities	4 340	4 340	2 988	2 988
Liabilities in respect of bonds and other financial liabilities	Other financial liabilities	2 313	2 313	2 828	2 828
Credits and loans	Other financial liabilities	1 434	1 434	2 834	2 834

24.4. Capital management

There were no changes in the Company's approach to capital management during the year. The Company is not subject to capital requirements that would be set externally.

It is the policy of the Company's Management Board to rebuild and maintain a strong capital base in order to secure the trust of capital market players, as well as to ensure future business growth. The Management Board seeks to maintain a balance between the higher rate of return achievable with higher debt levels and the benefits and security achieved based on solid capital.

At the end of the reporting period, the Company's debt to adjusted capital ratio was as follows:

Item	**31.12.2021**	**31.12.2020**
Interest-bearing credits loans and bonds	1 434	2 834
Trade and other liabilities	4 340	2 988
Finance lease liabilities	2 313	2 828
Less cash and cash equivalents	(706)	(829)
Net debt	**7 381**	**7 821**
Equity	**56 148**	**217 458**
Equity and net debt	**63 529**	**225 279**
Leverage ratio	**11,6%**	**3,5%**

25. Leases

The Company has identified two major categories of leases:

- real properties: offices (the Warsaw office and the manufacturing plant in Gdańsk, Poland);
- other leases.

As a result of IFRS 16, the Company (as a lessee) recognizes lease liabilities measured at the present value of the remaining lease payments, and right-of-use assets measured at an amount equal to the lease liabilities. After the initial recognition, assets are measured based on the cost model (i.e. initial value less depreciation). Interest on lease liabilities is recognized in profit or loss, except when the interest qualifies for capitalization in the carrying amount of the asset under construction that is financed by such liability. Finance costs for finance leases are disclosed in Note 9 to these financial statements.

Right-of-use by category of leases

The Company includes right-of-use assets within the same reporting line under which the assets would be presented if they were owned by the lessee. This means that ROU assets are presented in the *non-current tangible assets* (PP&E) item. The following is a ROU breakdown by underlying asset class.

	Net value as of 1 January 2021	**Increase for 2021**	**Depreciation for 2021**	**Impairment losses**	**Net value as of 1 January 2021**
Real property	2 599	513	(984)	-	2 129
Vehicles	-	-	-	-	-
	2 599	**513**	**(984)**	**-**	**2 129**

ROUs are amortized over the period of the lease. ROUs fully amortized in 2021 amounted to PLN 984 thousand.

Lease liabilities corresponding to right-of-use assets recognized

Lease liabilities are presented under “Other financial liabilities” (in short-term and long-term liabilities, as appropriate). Disclosures on the value of lease liabilities are presented in Note 22 to the financial statements.

Future undiscounted cash outflows included in lease liabilities

	31.12.2021	31.12.2020
up to 1 year	1 109	910
1–5 years	1 263	1 859
more than 5 years	-	-
	2 372	**2 769**

Costs and fees not included in lease liabilities

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Variable lease payments	19	24
	19	**24**

26. Contract liabilities towards acquisition of non-current tangible assets (PP&E)

During the period of the financial statements, the Company did not incur any contract liabilities with the aim of acquiring property, plant and equipment.

27. Contingent liabilities

The Company is a party to EU agreements for joint financing of investment projects that are aimed at development of its products and services. If the conditions of a development work project are not met, there may occur a risk that the subsidies will need to be returned. Subsidies received are secured by promissory notes. As the reporting date description above risks zostało ocenione jako wątpliwe. The Parent is implementing the development work timely as scheduled.

In 2016, the Parent guaranteed an interest-bearing promissory note of its subsidiary, MDG HoldCo based in USA, which was issued to Medi-Lynx Monitoring, Inc. as payment for the acquisition of shares in Medi-Lynx. In addition, until the price for those shares is paid in full, MDG Holdco's shares in Medi-Lynx have been pledged in favor of Medi-Lynx Monitoring, Inc.

On July 16, 2018, Medicalgorithmics S.A. issued an irrevocable and unconditional bank guarantee to secure PLN 404 thousand of the Company's liabilities under a commercial lease of premises at Al. Jerozolimskie 81 in Warsaw, Poland. The beneficiary under this guarantee is Central Tower 81 Sp. z o.o. (as lessor). The guarantee remains valid from the date of its issue to August 30, 2024.

In connection with the credit facility, a collateral was established – a deed of the Company's submission to statutory enforcement of debts in favor of the bank (according to Article 777 §1.5 of the Polish Civil Procedure Code), against all of the Company's assets, to secure its obligation to repay any and all monetary claims to the Bank as it may seek under the credit facility up to PLN 25.6 million. The credit facility is partly secured with a bank guarantee of PLN 12.8 million, valid until 28 February 2023, issued by Bank Gospodarstwa Krajowego based on a line of guarantee agreement with PLG-FGP Liquidity Guarantee Fund under the Polish government's Anti-Crisis Shield program. The guarantee secures 80% of the loan amount.

In February 2022, a lawsuit was filed in the American Arbitration Association against Medicalgorithmics S.A., Medi-Lynx Cardiac Monitoring LLC and Mr. Marek Dziubiński for USD 3.1 million in bonus and severance payments under a contract with Medi-Lynx Cardiac Monitoring LLC, lodged by the former CEO of the Medi-Lynx Cardiac Monitoring LLC, Mr. Peter Pellerito.

On March 29, 2022, a statement was submitted by a law firm on behalf of MDG S.A. and Mr. Mark Dziubiński clarifying that these entities are not parties to the contract signed with Mr. Peter Pellerito and, as such, the arbitration clause incorporated in the contract between Mr. Pellerito and Medi-Lynx Cardiac Monitoring LLC does not apply to them. At the same time, in the statement Medicalgorithmics S.A. refused to participate in the arbitration proceedings. The Management Board believes that the claims against MDG S.A. are groundless.

Goods and service tax, corporate income tax, natural income tax, social insurance regulations are subject to frequent changes and therefore there is often lack of reference to stable regulations or legal precedence. Current regulations also contain unclear provisions resulting in different legal interpretation of tax regulations between state authorities themselves as well as between state authorities and businesses. Tax settlements and others (i.e. customs duties or foreign currency settlements) may be inspected by state agencies authorized to charge significant penalties, and additional amounts liabilities determined during an inspection must be paid with interest. These factors cause the tax risk in Poland to be higher than in countries with a more developed tax system. Tax settlements may become subject to inspection by tax authorities within a period of five years.

Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities. The Capital Group was subject to audits by the tax authorities. The authorities are entitled to audit ledgers and accounting records. At any time during five years of the year when a tax return form was filed, they can charge additional tax liabilities, including interest on tax defaults and other penalties. In the opinion of the Management Board, there were no other circumstances that could lead to material tax liabilities.

28. Transactions with related entities

Medicalgorithmics US Holding Corporation

Statement of financial position (in PLN '000) — as of	31.12.2021	31.12.2020
Loans granted	75 883	65 527
Impairment of loans	(75 883)	-
Contribution to the supplementary capital	94 771	94 771
Impairment of shares	(94 771)	-

Statement of comprehensive income (in PLN '000)	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Interest on loans	3 446	3 381
Impairment of loans	(3 446)	-

Medi-Lynx Cardiac Monitoring LLC

Statement of financial position (in PLN '000) — as of	31.12.2021	31.12.2020
Trade receivables	51 365	31 761
Impairment loss on receivables from related entities	(3 500)	-

Statement of comprehensive income (in PLN '000)	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Revenue from sales of goods and services	32 192	40 889

Medicalgorithmics Polska Sp. z o.o.

Statement of financial position (in PLN '000) — as of	31.12.2021	31.12.2020
Trade receivables	9	58
Contribution to equity	1 267	1 267

Statement of comprehensive income (in PLN '000)	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Revenue from sales of goods and services	297	49

Medicalgorithmics India Pvt. Ltd

Statement of financial position (in PLN '000) — as of	31.12.2021	31.12.2020
Trade receivables	151	126
Contribution to the supplementary capital	183	183

Statement of comprehensive income (in PLN '000)	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Revenue from sales of goods and services	283	255

29. Transactions with officers

Remuneration of the Parent's Management Board and Supervisory Board in the reporting period is presented in the table below:

	31.12.2021	31.12.2020
Remuneration of the Management Board Members	1 094	968
Remuneration of the Supervisory Board	476	373

30. Employment structure

	31.12.2021	31.12.2020
Number of employees (in FTEs)	110	103

As of the reporting date (April 28, 2022), the Company employed 108 FTEs).

31. Information about significant legal proceedings

In the reporting period, there were no proceedings pending before any court, arbitration authority or public administration that would concern amounts payable or receivable of the Company for a sum of 10% of the Group's equity or more, or other material disputes for a value less than 10% of the Company's equity but that would need to be disclosed as required under IFRS.

32. Information on the entity authorized to audit financial statements

On May 18, 2021, the Company's Supervisory Board selected Grant Thornton Polska Sp. z o.o. Sp.k., a limited partnership based in Poznań, Poland (ul. abpa Antoniego Baraniaka 88 E, 61-131 Poznań, National Court Register No. 407558, entered in the Commercial Register of District Court in Poznań-Nowe Miasto and Wilda), which is registered with the Polish Chamber of Statutory Auditors (KRBR) under number 4055, as the entity authorized to audit individual and consolidated financial statements of the Company for 2021 and 2022 as well as to review interim individual and consolidated financial statements of the Company for the first half of 2021 and 2022. The auditor's remuneration for auditing the 2021 individual / consolidated financial statements was PLN 70 thousand, and for the review of the interim individual / consolidated financial statements for the first half of 2021 was PLN 49 thousand.

33. Events after balance sheet date

In February 2022, a lawsuit was filed in the American Arbitration Association against Medicalgorithmics S.A., Medi-Lynx Cardiac Monitoring LLC and Mr. Marek Dziubiński for USD 3.1 million in bonus and severance payments under a contract with Medi-Lynx Cardiac Monitoring LLC, lodged by the former CEO of the Medi-Lynx Cardiac Monitoring LLC, Mr. Peter Pellerito.

On March 29, 2022, a statement was submitted by a law firm on behalf of MDG S.A. and Mr. Mark Dziubiński clarifying that these entities are not parties to the contract signed with Mr. Peter Pellerito and, as such, the arbitration clause incorporated in the contract between Mr. Pellerito and Medi-Lynx Cardiac Monitoring LLC does not apply to them. At the same time, in the statement Medicalgorithmics S.A. refused to participate in the arbitration proceedings. The Management Board believes that the claims against MDG S.A. are groundless.

On March 26, 2022, the Company was informed that Mr. Grzegorz Janas resigned from his position in the Supervisory Board, effective from April 30, 2022. Mr. Grzegorz Janas indicated personal reasons behind his resignation.

There were no post-balance sheet events other than those disclosed in these financial statements that would need to be disclosed or otherwise included in these financial statements.

34. Consolidated financial statements

Medicalgorithmics S.A. prepared consolidated financial statements as the parent company. The consolidation covered statements of the Company and its subsidiaries.

This report was approved for publication on 28 April 2022.

Maciej Gamrot

Chief Financial Officer

Jarosław Jerzakowski

Member of the Management Board

CSWP Sp. z o.o. Sp.k.

Entity responsible for maintaining accounting records

for and on behalf of Michał Włodarczyk

Warsaw, 28 April 2022

DIRECTORS' REPORT

ON THE OPERATIONS OF

THE MEDICALGORITHMICS CAPITAL GROUP

AND

MEDICALGORITHMICS S.A.

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I. Overview of the Capital Group's operations

I. 1. Business profile of the Group

The Medicalgorithmics Group operates in the field of advanced telemedicine technologies. The Group is a provider of cardiac diagnostic solutions, particularly in the field of ECG analysis.

The primary business areas of the Group are:

- ECG monitoring services;
- information technology services;
- scientific research and development;
- manufacturing electrical equipment for medicine.

The Group's services are available in several countries and continents of the world, including North America, Europe, Asia and Australia. Currently, the largest market is U.S.A.

The Group's main competitive advantages are:

- advanced technology in mobile cardiac telemetry;
- a flexible business model adapted to the intrinsic specificity of a given market;
- a team of high-level professionals in the area of IT systems, programming, medical devices, digital signal processing, and project management.

The Group's primary source of revenue is the sale of diagnostic services provided to patients in the United States. These services are provided using PocketECG, the Medicalgorithmics S.A.'s proprietary solution, used for remote monitoring of heart disorders. Among the available devices for monitoring heart work, the PocketECG system stands out by, among others, the longest time of home arrhythmia monitoring, remote online access to complete monitoring records and full statistical analysis of cardiac arrhythmias. In particular, the system serves to detect the following arrhythmias: asymptotic, rare and irregular arrhythmias, and atrial fibrillation leading to stroke.

The PocketECG system has been approved for trading in the United States by the U.S. Food and Drug Administration (FDA). The system also bears the CE mark indicating that the device complies with the requirements of the European Union directives.

In addition to cardiac telemetry, the Group's products and solutions are used in the cardiac safety industry, i.e. in clinical trials of drugs for cardiac safety. Moreover, the Group collaborates closely with cardiovascular diagnostic and monitoring centers.

I. 2. Composition of the Capital Group

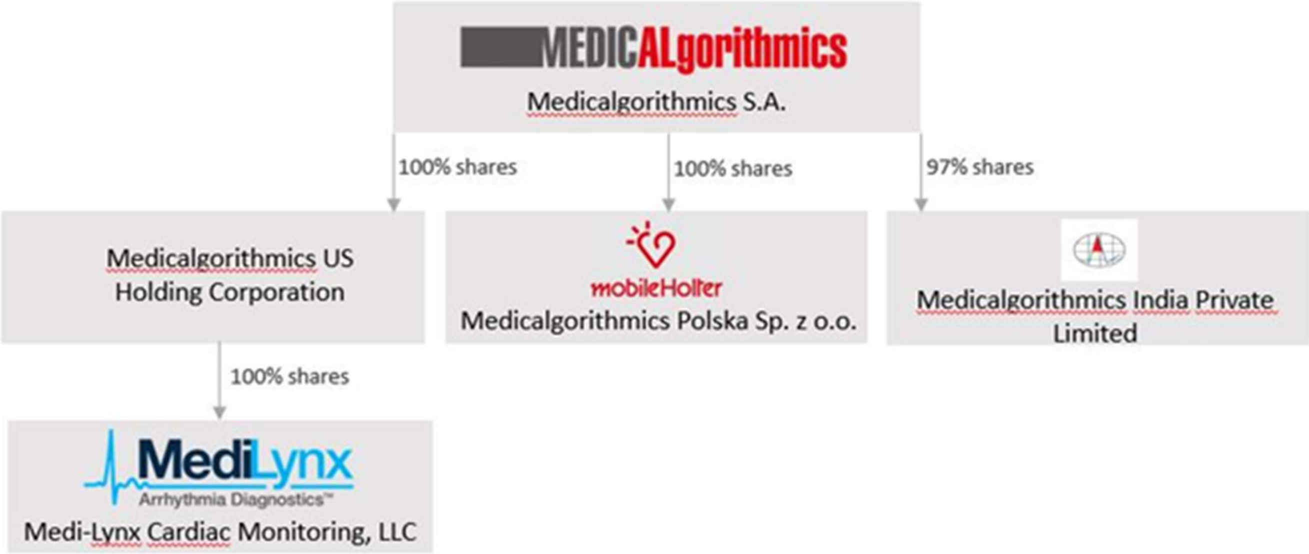
The Parent Company of the Group is Medicalgorithmics S.A. (the "Parent Company", "Company", "Issuer"), a joint-stock company registered in Poland, established in 2005. In 2011, the Company's shares made their debut on the NewConnect market, an alternative system of trading outside a regulated market operated by the Warsaw Stock Exchange. Since 3 February 2014 the shares of Medicalgorithmics S.A. have been listed on the regulated market of the Warsaw Stock Exchange.

The Medicalgorithmics Capital Group is composed of Medicalgorithmics S.A. and its subsidiaries. The Parent Company holds:

- 100% of the share capital of Medicalgorithmics US Holding Corporation ("MDG HoldCo") with its registered office in Wilmington, Delaware, USA;
- 100% of the share capital of Medicalgorithmics Polska Sp. z o.o. ("Medicalgorithmics Polska", "MDG Polska") with its registered office in Warsaw;
- 100% of shares in Medi-Lynx Cardiac Monitoring, LLC ("Medi-Lynx") with its registered office in Plano, Texas, USA, through MDG HoldCo;
- 97% of shares in Medicalgorithmics India Private Limited ("MDG India") with its registered office in Bangalore, India.

The financial statements of the Parent Company and all its subsidiaries were included in the consolidated financial statements using the full method.

The composition of the Medicalgorithmics Capital Group and its organizational and equity links as of 31 December 2021 are presented below:



I. 3. Strategy and business model

In August 2021, a review of strategic options was initiated to identify potential directions for the Group's business and, consequently, to enable it to select the most favorable way towards its long-term goal which is to secure the best possible market position in the advanced cardiology technology sector as well as to maximize the value for the Company's shareholders and secure financing for the Group.

The Group's ability to achieve its strategic objectives is primarily conditioned by the circumstances described in Note 4.1 to the consolidated financial statements and Section II of the Management Report, namely the existence of significant uncertainty as to the Parent's and the Group's continuation as a going concern over the next 12 months from the balance sheet date. The key issue and uncertainty in the Group's ability to continue as a going concern is whether it will secure financing. As announced by the Issuer (Current Report 21/2022 of April 20, 2022), based on the conservative assumptions made by the Management Board, the current cash position implies the need for extra financing over an approximate horizon of two months, either in the form of debt financing or through sale of certain assets. Based on the current assumptions, the Group's cash demand fits in the range of USD 4 - 6 million.

The strategic goal of Medicalgorithmics Group is to become a leading provider of state-of-the-art technology solutions and services in the area of cardiac arrhythmia diagnostics in Americas, Asia, Europe and Australia. The Group focuses on growing organically and through acquisitions, maintaining its rapid growth rate and ensuring a high level of customer satisfaction thanks to flexibly customized product / service offering targeted at identified market niches.

The Group is working to strengthen its position in the U.S. medical services market, develop the scale of operations overseas, and continue territorial expansion towards new markets. In each new market, Medicalgorithmics establishes partnerships with one or more strategic partners (sales and operational processes) to minimize its own business costs and focus on technology support for the patient service processes and on development of cardiology solutions. In the U.S., the medium-term goal of business model transformation has been realized and contracts were signed with insurers covering over 90% of the insured population. The change of the model allows the Group to roll out its business growth strategy as well as improve the certainty and stability of its revenue.

The Group employs highly qualified employees and puts great emphasis that only products and services of the highest quality are offered. The Group's products are patented in the key markets and are regularly awarded necessary quality and safety certificates.

The Group is focused on developing devices and services in the field of cardiac diagnostics for both inpatient and remote use.

The core strategic plans include:

- to introduce new products;
- to bring innovation in medical diagnostics;
- to develop new generations of the PocketECG system;
- to launch new IT technologies (like PocketECG web client);
- to offer integration and programming services to healthcare partners.

The first market in which Medicalgorithmics S.A. offered its product was Poland. Since 2010, the primary sales market for the Company has been the United States. The decision to expand into the U.S. was motivated by how open the U.S. market is to medical innovation and the high level of cardiac diagnostics reimbursement available there from private and public insurers, translating into the high value of the US telemedicine market and its good prospects towards dynamic growth. Initially, in the U.S. the PocketECG system was sold based on a subscription fee, in cooperation with two strategic partners that provide diagnostic services to hospitals, clinics, cardiology centers and other healthcare facilities. In March 2016, through a special purpose vehicle, Medicalgorithmics S.A. acquired 75% of the interest in one of its business partners (Medi-Lynx). In December 2016, a customer base was acquired from another business partner. Thus, since 2017, Medi-Lynx has been the exclusive provider of PocketECG system services in the U.S.

The above acquisitions have led to creation of the Capital Group that merges both technology-oriented operations related to the development of innovative products as well as the service operations related to the supply of top-quality remote cardiac diagnostic services, with the use of its proprietary products. In the Group, the entity providing the above diagnostic services is Medi-Lynx, which has been in operation since the beginning of 2014.

Medi-Lynx provides diagnostic services to patients across more than 35 U.S. states and receives revenue from insurers of PocketECG users and patients. The services of Medi-Lynx can be divided into four main categories, namely Telemetry, Event Monitoring, Holter, and since 2020 Extended Holter, and all of them are billed based on medical procedure reimbursement codes (CPT). Based on the data collected with PocketECG, the ECG specialists employed by Medi-Lynx prepare comprehensive reports that are later used by physicians to diagnose heart disorders detected through ECG.

In manufacturing the PocketECG system, the Parent uses a number of suppliers of electronic components and subassemblies. Sources of supply are diversified and the Group constantly establishes new business relationships with other potential suppliers.

In addition to the cardiac telemetry, its products and solutions are used in clinical trials that assess cardiac safety. The Company also works closely with many cardiac diagnostics and vigilance centers.

In addition to its flagship system (PocketECG), the Company also develops other innovative cardiac monitoring solutions. The fourth quarter of 2020 saw the launch of the 4th generation of PocketECG which allows, among other functions, to connect via LTE. The company is also applying to certify a patch device for single-channel cardiac monitoring use. More information on current new products is presented in Section V.1 of this Report.

I. 4. Segment information

The Capital Group operates mainly outside of Poland, particularly in the US. The operations are classified within a single segment, which includes both sales of diagnostic and IT services, and devices that are products related to the services offered.

I. 5. Shareholding structure of the Parent Company

The following chart and table present the shareholders of Medicalgorithmics S.A. holding 5% or more of total voting rights at the General Meeting as of the issue date of this report based on the Company's best knowledge, including changes in major holdings of shares after the issue of the previous quarterly report. The information contained in the table is based on notifications received from shareholders in accordance with Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

Chart 1. Shareholding structure of Medicalgorithmics S.A.

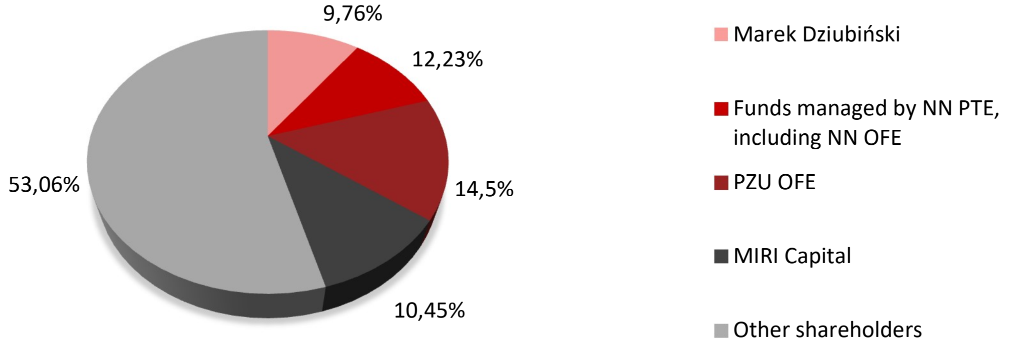


Table 1. Shareholding structure of Medicalgorithmics S.A.

Shareholder	Number of shares	% of shares
Marek Dziubiński	485 556	9,76%
Fundusze zarządzane przez NN PTE, w tym NN OFE*	608 592	12,23%
PZU OFE	721 689	14,50%
MIRI Capital	520 238	10,45%
Other shareholders	2 640 310	53,06%
Number of shares	**4 976 385**	**100%**

** based on the number of shares registered as a result of an increase in the equity on 15 December 2021.*

As a result of the issue of series H shares, the total number of shares increased by 648 556 compared to the number of shares specified as of the date of publication of the annual report for 2020.

Agreements which may cause future changes in the percentages of shares held by the existing shareholders and bondholders

There are no agreements as a result of which there could be changes in the proportions of shares held by the existing shareholders and bondholders in the future.

I. 6. Dividend policy

According to Article 395 of the Polish Commercial Companies Code ("Code"), the Annual General Meeting is the relevant corporate body that decides profit distribution (or how to cover losses) and dividend payments. It must be convened within 6 months of the end of a financial year. The Annual General Meeting of the Company determines through a resolution how to distribute profit for the last financial year, the amount of dividend, the dividend date, and the date for its payment, according to Article 348 § 3 of the Code. And according to Article 27 (3) of the Articles of Association, the Company's Management Board is authorized to make advances to shareholders on account of the planned dividend, upon prior approval of the Supervisory Board.

The terms and conditions for payment of a dividend which the Annual General Meeting decided are determined by the Management Board, in consultation with the Central Securities Depository of Poland (KDPW). A company whose shares are traded on a stock exchange must agree its dividend decisions with and notify about them the Warsaw Stock Exchange, according to procedures and rules described in the Detailed Exchange Trading Rules of the Warsaw Stock Exchange.

On May 29, 2017, the Management Board adopted Resolution 03/05/2017 recommending a dividend policy concerning profits achieved by the Company in 2016 and later years.

The Management Board wants to make dividend payments from profits earned by the Company in the financial years following 2016 at the maximum level of 50% of the consolidated net profit of Medicalgorithmics Group attributable to shareholders of its parent entity, based on the consolidated financial statements, with the remainder of the profit to be allocated to the supplementary capital.

The Management Board's final decision on profit distribution will be impacted from time to time by the Group's market, financial and liquidity position, any existing and future liabilities, and any related clauses preventing certain levels of indebtedness. If and when recommending dividend payments, the Management Board also takes into account the need to secure the capital as necessary for further development of the business.

The Management Board sets the dividend day based on which a list of dividend-entitled shareholders is composed and dividend payment dates are determined, as needed to ensure the efficient course of the dividend process.

The ultimate decision to pay the Company's net profit in subsequent financial years is made by the its Annual General Meeting.

Distribution of 2020 net profit

On May 6, 2021, the Management Board of Medicalgorithmics S.A. adopted Resolution No. 2/2021 recommending the Annual General Meeting to allocate the entire net profit generated by the Company in financial year 2020 (PLN 21,205 thousand) to its capital reserves. The Management Board has considered the potential need for capital in the Group caused by the prolonged COVID-19 pandemic, which could have a temporary negative impact on the Group's financial result, as well as the potential need for capital stemming from the continuing technological development of products according to its medium- and long-term plans.

On June 15, 2021, having considered the Management Board's profit distribution recommendations, the Annual General Meeting decided to allocate the 2020 net profit of Medicalgorithmics S.A. fully to the supplementary capital.

I. 7. Purchase of treasury shares

In the reporting period, the Parent Company did not acquire any treasury shares.

I. 8. Management Board of the Parent Company

As of the date of this report, the Management Board of Medicalgorithmics S.A. consisted of the following members:

Maciej Gamrot – Member of Management Board and Chief Financial Officer (since August 23, 2021)

Maciej Gamrot is a graduate of University of Lodz, Business Administration Faculty. He has been certified by ACCA (UK Association of Chartered Certified Accountants) and is a Certified Internal Auditor (qualified by US Institute of Internal Auditors). His professional career started off in audit departments of PWC and EY. Maciej Gamrot held many managerial positions in finance and audit in the past years. During his 14 years at Agora Group S.A. he moved through various functions (inc. financial reporting manager, group internal audit manager and acting CFO). Maciej Gamrot was a member of the management board and CFO at Platige Image S.A., Audioteka S.A., Dobroplast Fabryka Okien Sp. z o.o. (after its acquisition by Arbonia A.G. Group). On August 23, 2021, Maciej Gamrot has been appointed the Member of the Management Board and CFO at Medicalgorithmics S.A. and since November 2021 he has been serving as a non-executive director in the board of Medi-Lynx Cardiac Monitoring LLC.

Jarosław Jerzakowski – Member of Management Board (since August 5, 2021)

Jaroslaw Jerzakowski is a graduate of the Cracow University of Economics where he majored in Foreign Trade and International Business, and University of Mannheim where he completed the European Master of Business Sciences (EMBS) program with honors. Jarosław Jerzakowski has been professionally involved in foreign sales development and marketing since 2004. He held management positions at Konica Minolta Business Solutions and Adrem Software. Starting February 2013, he is responsible at Medicalgorithmics S.A. for foreign business development (non-US). Jarosław Jerzakowski has built from the scratch and further developed the overseas sales of tele-cardiology services to a level of over 70,000 patients per year, across 17 countries of diverse healthcare systems. In 2018-2020 and since November 2021 he has been a non-executive director of board at Medi-Lynx Cardiac Monitoring LLC.

Table 2. Management Board remuneration for 2021 (PLN ’000)

Person	Function held in the Issuer's governing bodies	Remuneration
Maciej Gamrot	Member of Management Board and Chief Financial Officer (since August 23, 2021)	143
Jarosław Jerzakowski	Member of Management Board (since August 5, 2021)	250
Peter G. Pellerito	Member of Management Board (until January 14, 2022)	4 170
Marcin Gołębicki	President of the Management Board (since June 16, 2021 until July 29, 2021)	109
Maksymilian Sztandera	Member of the Management Board, Chief Financial Officer (until August 23, 2021)	354
Marek Dziubiński	President of the Management Board (until 16 June, 2021)	118

Included in the reporting period is the base salary and accrued bonuses of the member of the Parent's Management Board who, during the reported period, performed work and held functions in managing bodies of Medi-Lynx LLC, the US subsidiary.

In February 2022, a lawsuit was filed in the American Arbitration Association’s International Centre for Dispute Resolution against Medicalgorithmics S.A., Medi-Lynx Cardiac Monitoring LLC and Mr. Marek Dziubiński for USD 3.1 million in bonus and severance payments under a contract with Medi-Lynx Cardiac Monitoring LLC, lodged by the former CEO of Medi-Lynx Cardiac Monitoring LLC, Mr. Peter Pellerito.

On March 29, 2022, a statement was submitted by a law firm on behalf of MDG S.A. and Mr. Mark Dziubiński clarifying that these entities are not parties to the contract signed with Mr. Peter Pellerito and, as such, the arbitration clause incorporated in the contract between Mr. Pellerito and Medi-Lynx Cardiac Monitoring LLC does not apply to them. At the same time, in the statement the company refused to voluntarily participate in the arbitration proceedings and argued that based on its registered office location (Poland) it is beyond the US jurisdiction. Hence, the Management Board believes that the claims against MDG S.A. are groundless. Also, subsidiary Medi-Lynx recognized a provision of USD 1.5 million towards board’s bonus payments (the undisputable part). The remaining portion of the claim (USD 1.6 million) is, in the opinion of the Management Board and its law firms, not legitimate. Medi-Lynx is currently waiting for an arbitration date to be set.

There are no agreements between the Company and board members that would provide for compensation in the event of their resignation or dismissal.

I. 9. Supervisory Board of Medicalgorithmics S.A.

As of the date of this report, the Supervisory Board of Medicalgorithmics S.A. consisted of the following members:

Marek Dziubiński - Chairman of Supervisory Board

Graduate of the Interdepartmental Studies of Environmental Protection, University of Warsaw, with major in: Physics, Mathematics and Computer Science (2000), and doctoral studies at Gdansk University of Technology, Multimedia Systems Faculty (2006). Since June 2005, Marek Dziubiński has been the President of Management Board and Chief Technology Officer of Medicalgorithmics SA. His previous professional experience includes Aud-X Team, Waveformatic, and Houpert Digital Audio, as well as the Presto-Space project. Marek Dziubiński is a co-founder of Medicalgorithmics S.A. and for many years has served as its President.

Michał Wnorowski - Vice Chairman of Supervisory Board, Chairman of Audit Committee

Michał Wnorowski is a graduate of the Warsaw School of Economics and the Cracow University of Economics. Currently he is an independent supervisory board member in a number of listed companies: Medicalgorithmics, Develia, Alumetal, Voxel, Arteria. Michał Wronowski has been involved in the financial market since 1995. In 2012-2016, he was Chief Investment Officer in charge of Long-Term Shares Portfolio for PZU Group. Previously, he was a long-time manager of the analysis and corporate governance team at PZU Group. Michał Wronowski is experienced in investment project management, market analysis, business analysis and valuation, and securities portfolio management. He has also dealt with corporate restructuring and corporate governance. Michał Wronowski was a member of supervisory boards of: Robyg, Elektrobudowa, Travelplanet.pl, EMC Instytut Medyczny, Braster, Enter Air, Armatura Kraków, ARM Property.

Anna Sobocka - Member of Supervisory Board, Member of Audit Committee

Graduate of University of Lodz, foreign trade major. Anna Sobocka holds a postgraduate degree in personnel management psychology from University of Warsaw, and an International Executive MBA from IE Business School (Instituto de Empresa) in Madrid. She is a Certified Public Accountant, FCCA, Certified Internal Auditor (CIA), and Certified Fraud Examiner (CFE). As a finance professional Anna Sobocka combines strategic and tactical experience gained while being CFO for over 3 years and over 5 years as a private entrepreneur, with an in-depth understanding of multinational organizations from multiple sectors, topped with more than 15 years in audit and financial consulting at EY.

Stanisław Borkowski - Member of Supervisory Board, Chairman of Nomination and Remuneration Committee

Stanisław Borkowski is an executive MBA graduate of University of Quebec, Montreal / SGH - Master of Business Administration, and also University of Oslo (Norway) where he got his M.D. degree. He has extensive management and supervisory experience in the following sectors: insurance, banking, health care, biotechnology, finance, TFIs, IT, new technologies, renewable energy, international expansion of products and services in various sectors and business models. Stanisław Borkowski was a member of many supervisory boards, including: UNUM Polska S.A., Polish-Canadian Chamber of Commerce, International Federation of Health Plans, Lady Sue Ryder Foundation of Warsaw, TFI Allianz Polska S.A

Martin Jasinski - Member of Supervisory Board, Member of Nomination and Remuneration Committee

Martin Jasinski graduated from Columbia University in New York (USA) with MBA in Finance & General Management; from SUNY University at Buffalo (USA) with MA in Geographic Information Systems / Computer Science; and from University of Warsaw and Hunter College in New York (USA) with BA in Geography and Economics. Martin Jasinski is the founder of Cogito Capital Partners, a venture capital fund investing in Central European B2B technology companies with global expansion potential, concentrating on enterprise software, financial technology and digital health capabilities. Prior to founding Cogito Capital Partners he had led investments in Medicalgorithmics through a managed investment fund.

Grzegorz Janas - Member of Supervisory Board

Graduate of Maria Curie-Sklodowska University in Lublin, Law and Administration Faculty. Grzegorz Janas began his career in 1999 in banking and financial services, then after apprenticeship he worked for the judiciary (District Court in Nowy Dwor Mazowiecki, and then District Court in Warsaw). During his legal employment Grzegorz Janas was seconded to the Ministry of Treasury as the Minister's Counselor in charge the Privatization Control Team. In May 2016 Grzegorz Janas engaged with PZU Group where he held various positions, including President of Management Board in PZU Centrum Operacji S.A. He is also a member of the Supervisory Board of Polnord S.A. and Armatura Kraków S.A. During his career, Grzegorz Janas participated in many community organizations and took part in legislative work to change rules of access to certain legal professions and changed bankruptcy receiver regulations, court enforcement procedure regulations, bailiff regulations, the Civil Code and the Civil Procedure Code regulations. As a lawyer his area of specialty includes corporate, business and real estate law. Author of many publications on Polish corporate law, pledge register regulations, and freedom of business activity regulations.

Andrzej Gładysz - Member of Supervisory Board, Member of Audit Committee

One of the most experienced insurance market managers and a co-author of insurance regulations and the insurance supervision system in Poland, with 30 years of experience in insurance. In 1991, Andrzej Gładysz advanced his career from the Ministry of Finance and the State Insurance Supervisory Authority, through Commercial Union group entities (now Aviva), Prudential, to the PZU Group (the largest financial group in CEE). In 1996-1998, he was the Audit Manager at PUNU, and in 1998-2011 he held a number of positions in the Aviva group (CEO, company agent, member of management and supervisory boards). From 2011 to 2017, Andrzej Gładysz was a manager of the Prudential branch in Poland and the company agent for proxy Prudential Poland, and since 2017 he has been the legal office manager, a member of steering committees and supervisory board chairman for many companies of PZU Group. A Polish attorney licensed in 1997. Since 1998, Andrzej Gładysz has been an active member of the insurance self-governing body of the Polish Insurance Chamber where he contributes on a no-fee voluntary basis in addition to his regular job. In the Polish Insurance Chamber, Andrzej Gładysz was a community chairperson, member of several committees, teams and working groups in charge of Legal and Legislative, Intermediation, Good Practices Council, Bancassurance, etc. He is a co-author of the Chamber's new organization model and Code of Ethics and Good Practices. An active and effective insurance sector advocate during parliamentary and government works (for example, his activity has led to development of the latest regulations on personal data protection in insurance, on group insurance, and on anti-money laundering). A participant and a speaker at many conferences and workshops on the Polish and foreign financial markets, often representing Poland and the Polish insurance market. Winner of many awards and prizes in the area of insurance. Awarded the Bronze Cross of Merit of the Republic of Poland.

Audit Committee details are presented in Section VII.7 of this report.

The following table shows Parent shares held, directly or indirectly, by members of the Management Board or the Supervisory Board as of the date of the report, together with any changes since the publication of the previous quarterly report. The information is based on declarations received from members of the Management Board and the Supervisory Board, according to Article 160.1 of *Financial Instruments Trading Act*

Table 3. Company shares held by members of the Parent Company's Management and Supervisory Boards

Person	Function held in the Issuer's governing bodies	Number of directly held shares	Number of shares held indirectly[1]	Change in the period form 15 November 2021 to 28 April 2022
Maciej Gamrot	Member of Management Board and Chief Financial Officer	-	-	Unchanged
Jarosław Jerzakowski	Member of Management Board	-	-	Unchanged
Peter G. Pellerito	Member of Management Board	-	-	Unchanged
Marek Dziubiński	Chairman of Supervisory Board	485 556	-	+5 556
Michał Wnorowski	Vice Chairman of Supervisory Board	-	-	Unchanged
Marek Tatar	Member of Supervisory Board	-	-	Unchanged
Anna Sobocka	Member of Supervisory Board	-	-	Unchanged
Stanisław Borkowski	Member of Supervisory Board	-	-	Unchanged
Brandon von Tobel	Member of Supervisory Board	-	-	Unchanged
Martin Jasinski	Member of Supervisory Board	-	-	Unchanged
Andrzej Gładysz	Member of Supervisory Board	-	-	Unchanged
Grzegorz Janas	Member of Supervisory Board	-	-	Unchanged
Werner Engelhardt	Member of Supervisory Board	-	-	Unchanged

1) An indirect holding is when a person owns shares in an entity which directly holds shares in the Company; such ownership is not equivalent to having the status of the parent of the entity which directly holds shares in the Company.

Table 3. Information on the remuneration Supervisory Board in 2021 (PLN '000)

Person	Function held in the Issuer's governing bodies	Remuneration
Marek Dziubiński	Chairman of Supervisory Board	44
Michał Wnorowski	Vice Chairman of Supervisory Board, Chairman of the Audit Committee	98
Marek Tatar	Member of the Supervisory Board, Member of the Audit Committee (until October 25, 2021)	46
Anna Sobocka	Member of the Supervisory Board, Member of the Audit Committee	35
Stanisław Borkowski	Member of the Supervisory Board, Chairman of Nomination and Remuneration Committee	40
Brandon von Tobel	Member of the Supervisory Board, Member of Nomination and Remuneration Committee	37
Martin Jasinski	Member of the Supervisory Board, Member of Nomination and Remuneration Committee	35
Andrzej Gładysz	Member of the Supervisory Board, Member of the Audit Committee (since October 26, 2021)	12
Grzegorz Janas	Member of the Supervisory Board (since October 26, 2021)	9
Werner Engelhardt	Member of the Supervisory Board (since October 26, 2021)	9
Artur Małek	Member of the Supervisory Board, Chairman of the Audit Committee (until June 15, 2021)	33
Krzysztof Urbanowicz	Member of the Supervisory Board, Member of the Audit Committee (until June 15, 2021)	33
Marcin Gołębicki	Member of the Supervisory Board (until June 15, 2021)	22
Mariusz Matuszewski	Member of the Supervisory Board (until June 15, 2021)	23

In addition, Mr. Marcin Gołębicki received remuneration in the total amount of PLN 55 thousand for providing business development consulting services.

There are no agreements between the Company and Supervisory Board members that would provide for compensation in the event of their resignation or dismissal.

I. 10. Branches operated by the Parent Company

Medicalgorithmics S. A. has no formal branches. In 2021, however, it operated in two locations: at the Company's head office was in Warsaw and in the production plant in Gdansk.

Table 5. Branches of the Company and their locations

Name of the location	City	Address
Registered office – registered office of the Management Board	Warsaw	Al. Jerozolimskie 81, 02-001 Warszawa
Manufacturing plant	Gdansk	Ul. Marynarki Polskiej 100, 80-557 Gdansk

I. 11. Headcount

Information on the number of employees is presented in the table below.

Table 6. Headcount at the Parent Company and in the Capital Group

Number of employees (in FTEs)	31.12.2021	31.12.2020
Medicalgorithmics Capital Group	329	334
Medicalgorithmics S.A.	110	103

As of this report date (28 April 2022), the Parent Company and Capital Group had, respectively, 108 and 293 employees (in FTEs).

I. 12. Information on the agreement for the audit of the financial statements

On 18 May 2021, at a meeting of the Supervisory Board of the Company, Grant Thorton Polska Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa with a registered office in Poznań, abpa Antoniego Baraniaka 88 E, 61-131 Poznań, entered in the Register of Entrepreneurs of the National Court Register under KRS and entered in the list of audit companies kept by the National Council of Statutory Auditors under No 4055, was appointed as the entity authorized to:

a) Review the interim financial statements of Medicalgorithmics S.A. for the reporting periods ended 30 June 2021 and 30 June 2022;
b) Review the Capital Group's interim consolidated financial statements for the reporting periods ended 30 June 2021 and 30 June 2022;
c) Audit the financial statements of Medicalgorithmics S.A. for the financial years ended 31 December 2021 and 31 December 2022;
d) Audit the Capital Group's consolidated financial statements for the financial years ended 31 December 2021 and 31 December 2022.

Table 7. Remuneration of the entity authorized to audit and review financial statements (PLN '000)

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Audit of the annual separate and consolidated financial statements	217	228
Review of the interim separate and consolidated financial statements	135	112

I. 13. Information on changes in the key rules of managing the Company and its Capital Group

In the year ended 31 December 2021, there were no changes in the key rules of managing the Parent Company and the Capital Group. The Management Board of the Parent Company strives to harmonize the management principles in the Medicalgorithmics Group companies by implementing appropriate procedures and standards of ownership control.

II. Development factors and summary of significant events related to 2021 operations

In August 2021, a review of strategic options was initiated to identify potential directions for the Group's business and, consequently, to enable it to select the most favorable way towards its long-term goal which is to secure the best possible market position in the advanced cardiology technology sector as well as to maximize the value for the Company's shareholders.

In the context of the review, the Issuer's Management Board informed in Current Report 35/2021 that Medi-Lynx (major source of revenue within the Capital Group) continued the growth strategy by transforming the out-of-network model to one that involves long-term service contracts made directly with key private insurers (in-network). The Group assumes that this will ultimately provide access to new customers, providing an opportunity to increase the average test value, and consequently translate into a significant increase of profitability and sales volume. To date, Medi-Lynx has signed contracts with all top nationwide insurers in the U.S., ensuring 91% coverage of the U.S. population under the in-network model. This has improved the market position of Medi-Lynx on par with other market competitors in terms of access to the insured.

Another milestone achieved by Medi-Lynx in the U.S. is the readiness (since Q3 2021) for the rapid integration of PocketECG with hospitals' patient record systems (EHR) to allow access to extensive hospital systems (IDN - Integrated Delivery Networks) that represent the greatest business potential. This was accomplished by collaborating in and completing the PocketECG integration project with Redox - a market leader offering a middleware solution that works with all major hospital EHR systems in the US. In addition, Medi-Lynx implemented a number of process and system improvements to enable efficient exchange of medical information as well as billing with healthcare providers and insurers. The above can be observed in a more margin-oriented mix of services and significantly reduced operating costs, including US payroll. The next step is to increase the number of resellers and obtain certifications for and market the PatchECG (QPatch) device in the U.S., which will enable the Company to effectively attract new customers and increase sales, among other benefits.

Previous financial projections have assumed that the above changes, which are the basis for monetizing the ongoing business model transformation, would be financed from the cash flow generated by the increase in the number of tests performed. However, as the transition has taken longer than expected due to, among other factors, the impact of COVID-19 pandemic, the resulting volume of tests performed and, consequently, cash inflows were not at the assumed level and did not allow for the originally assumed improvement of operational profitability and liquidity of Medi-Lynx as well as the Group as a whole.

In connection with the above, the Management Board has taken steps aimed at acquiring further fincance through for the Company to enable the continued implementation of its growth strategy as well as to secure the liquidity of the Group. A parallel review of strategic options that are available to the Company will be continued.

The actions taken resulted in the new issue of shares. On October 26, 2021, the Extraordinary General Meeting passed a resolution increasing the Company's share capital through issue of new ordinary bearer shares, series H. On November 15, 2021, the decision was made to launch a public offer by private placement. The book-building process was carried out from November 15 to November 24, 2021, and subscription agreements for Series H Shares were concluded by December 3, 2021. There were 648,556 series H stocks issued at the issue price of PLN 18.00 per share. The total issue value was PLN 11.7 million. The resulting capital increase was registered by the District Court of Warsaw, on December 15, 2021. The issue cost was PLN 615 thousand and was charged directly to the supplementary capital of Medicalgorithmics S.A. The Company received the proceeds from the issue on December 16, 2021.

However, as the assumptions made to date regarding the planned quantity of tests to be performed in 2022 turned out be overly optimistic, following a management change in the Issuer's subsidiary, Medi-Lynx (see Current Report 2/2022), the previous assumptions have been revised. Hence, expected cash inflows from the US market were revised, as well (Current Report 6/2022).

The revised expectations regarding the growth of revenues to be generated in the U.S., costs that are being incurred for equipment manufacturing and technology development, implied a need to find additional financing over an approximate horizon of a few months. Such need existed despite the new funds obtained from the H series issue.

Based on the current assumptions, the Group's cash demand fits in the range of USD 4 - 6 million (see Current Report 21/2022). Out of prudence, the Management Board is pursuing more finance. As announced by the Issuer in Current Report 21/2022 of April 20, 2022, based on the conservative assumptions of the Management Board, the current cash position indicates the need to procure additional financing over an approximate horizon of two months, either in the form of debt finance or via sale of certain assets.

As long as the financing is obtained (either debt finance or equity investment currently assumed at USD 4 - 6 million), the Company and the Group will be able to continue, subject to other financial assumptions, for at least 12 months after the balance sheet date. However, should the financing procured be lower than assumed, supplemental financing will be needed or certain assets of the Group urgently sold, including:

1. Sale of the entire Medi-Lynx LLC (ML) business.
2. Sale of all or some MDG assets, such as intellectual property rights.

In order to obtain the debt financing or sell the assets, as part of the review of its strategic options, the Management Board (assisted by the Supervisory Board) is carrying out the following activities:

1. The Management Board is in intensive discussions with advisors regarding bridge financing and the potential sale of the Group's assets. Agreements have been signed with two US advisors to find finance, with one of them also seeking an investor or sale of the Group's assets.
2. As of the date of these statements, the Group does not have detailed terms and conditions of a potential finance / asset sale transaction. The Company is currently holding talks with several parties, however these are not negotiations of the actual terms of such transaction. The Group has not received formal proposals yet. The Group has made business presentations and the analysis of potential transaction scenarios and transaction objects is pending. No binding or non-binding transaction documents have been signed. However, in order to enable the future transaction, in the event it will require a tight timetable and be justified in the context of the Company's plans and strategies related to its and the Group’s current operational and financial position, the Management Board summoned the Extraordinary General Meeting for May 10, 2022. The agenda for the meeting included resolutions enabling the future transactions to proceed.

Considering the uncertainty related to the ability to secure financing, which is a key issue and area of uncertainty in the going concern ability of the Group, the Management Board prepared the 2021 financial statements on a going concern basis, taking into account the existence of significant uncertainty as to the Parent’s and the Group’s continuation as a going concern over the next 12 months counted from the balance sheet date.

There are also other issues and risks, as described further below, that have a material impact on the Group's ability to continue as a going concern. However, it is the procurement of the financing on at least the assumed level or the sale of assets that creates the uncertainty on which depends the continuation of its business by the Company and MDG S.A. Capital Group.

Among the other issues and risks of material impact on the Company's and the Group's ability to continue as a going concern, there are:

1. The ability to achieve the assumed growth in revenues in the U.S., while maintaining the assumed level of the Group's operating expenses, including costs of equipment manufacturing and technology / sales development.
2. The ability (if needed) to enter into agreements changing the terms of repayment of debts, including a credit facility from Bank Millennium S.A., liabilities due to Medi-Lynx Monitoring, Inc. under the Medi-Lynx acquisition.
3. Public aid for Medi-Lynx which may be eligible for approximately USD 4.5 million in non-refundable funds.

As mentioned above, the Company's and the Group's ability to continue as a going concern is affected by the risk related to the achievement of the expected growth in revenues in the U.S., while maintaining the assumed level of the Group's operating expenses, including costs of equipment manufacturing and technology / sales development. When creating its financial plans and estimating its financing needs, the Group assumed various scenarios of, for example, sales growth and level of costs, therefore determining the necessary minimum finance in the range of approximately USD 4-6 million. To achieve its Medi-Lynx sales targets, the Group assumed a major (up to two times) increase of the sales team. Currently, facing the risk of insufficient financing, the Group has significantly limited such plans and it could have a negative impact on its ability to achieve the assumed sales targets. If unable to achieve the sales level assumed in its forecasts or should costs rise, the need for finance may be greater than originally assumed.

Another key issue for the Company's and Group's continuity of operations is its ability to timely repay the credit facility from Bank Millennium S.A., also taking into account the risk of required early repayment before the contracted maturity date. As of the balance sheet date, the available credit line was PLN 9.4 million (April 30, 2022: PLN 6.0 million), including consumed PLN 1.4 million as of December 31, 2021 and PLN 4.7 million as of April 25, 2022. According to the credit facility agreement, the limit will be gradually reduced at a rate of PLN 860 thousand per month until the end of November 2022. The risk of early repayment stems from the agreement itself which allows the Bank to terminate the agreement in the event of a material deterioration of the borrower's position or a loss of its creditworthiness, which the bank could recognize in the case of the Company's situation. Furthermore, in the event of any additional debt finance taken out by the Company the credit facility agreement requires that the bank be provided with the same security as the one given to the party providing such debt finance, and in certain transactions which are currently being considered this could be impossible. Due to the uncertainty surrounding the timeframe and amounts of the future financing, the Group is negotiating with the bank options and conditions for deferred repayment without termination of the credit facility agreement and premature triggering of the due date.

Discussions are being held with Mr. Andrew Bogdan regarding an extension of payment due dates in order to avoid official enforcement proceedings against Medi-Lynx assets should amounts due to Medi-Lynx Monitoring, Inc. (an entity controlled by Mr. Bogdan who disposed of his interest in Medi-Lynx Cardiac Monitoring, LLC to the Issuer's Group) for the acquisition of Medi-Lynx be late.

The outcome of these discussions with the bank and with Mr. Andrew Bogdan depends on, among other things, perspectives towards the procurement of the new financing or the closure of the asset sale transaction that would feed funds needed to repay the Bank and Medi-Lynx Monitoring, Inc.

In addition, in April 2022, Medi-Lynx applied for a partial tax refund of personal taxes paid under the Employee Retention Credit (ERC) program to U.S. Internal Revenue Service (IRS). According to AUTOMATIC DATA PROCESSING, INC. (ADP provides the payroll process support to Medi-Lynx), based on the new regulations of *Consolidated Appropriations Act* of 2021 and *American Rescue Plan Act*, Medi-Lynx is eligible for such public aid with respect to quarters 1-3 of 2021. The Group has not verified this information through other third-party advisors other than ADP.

ADP filed tax refund applications on behalf of Medi-Lynx for a total of USD 4.5 million.

Also, ADP informed Medi-Lynx that its eligibility for the tax refund and the actual amount are subject to IRS approval, and until then neither the refund nor its final amount is certain (ADP is aware of some refund applications having been rejected). Confirmation of the tax refund applications is expected within approximately two months of their submission. Additionally, according to ADP, a refund, if any, will be paid only within 9 months following the date of submission because of the high turnout of public aid applications pending with IRS. There is no formal procedure for the IRS to expedite the processing of the tax refund application or the resulting payment.

Based on such assumptions, the Group's assets were tested for impairment as described in Note 4.7 "Asset impairment testing" of the consolidated financial statements in order to measure the Group's assets at net selling prices.

In summary, the Management Board informs that:

1. No decision has been made to liquidate the Company or declare its bankruptcy as the prerequisites justifying such decision have not been met. Therefore, it cannot be assumed as *certain* that the Group will fail to be a going concern.
2. However, there is significant uncertainty whether funds can be secured from:
    a. future debt financing,
    b. sale of Medi-Lynx assets;
    c. sale of Medicalgorithmics S.A. assets;
    d. Public aid for Medi-Lynx.

Business development outside USA

In 2021, the Parent achieved a satisfactory level of PocketECG system sales in non-US markets (OUS), selling over thousand new devices there. The placement and activation of new equipment in the overseas markets translated into a continued increase in sales revenue from non-U.S. partners by about 30% year on year. The largest non-US markets continue to be Canada, Denmark and Australia. Regardless of the pandemic and related restrictions that hinder access to hospitals, 2021 sales plans have been achieved. In the reporting period, there was also a higher number of patients screened with PocketECG in non-US markets, amounting to about 85,000. There was an increase of about 25% in the number of non-US patients tested throughout the year. At the end of the year, there were also 3,927 total active devices for which the Company charges monthly fees as its recurring revenue. This is 21% more active devices than in 2020.

At the same time, in 2021 the Company signed contracts with new strategic partners in Spain, Switzerland, Austria and Hungary, as well as in the very prospective Asian market (Philippines and Indonesia).

Marketing activities

In 2021, the marketing strategy has been continued as adopted in 2020, however adjusted for the pandemic situation still pending. The main objective of the marketing efforts was to support sales and develop ways to reach target groups in such pandemic situation where access to healthcare services was difficult. These actions relied heavily on clinical marketing, traditional content marketing strategies, and inbound marketing. Throughout the year, promotional activities were carried out on social media platforms, with the main focus on LinkedIn.

By taking active measures in the area of clinical research, the Group took part in industry publications and signed a large clinical trial contract which involves the use PocketECG technology for post-procedure patient monitoring. The Company also carried out other activities in order to establish its expert image in the community, with successful webinars for healthcare professionals.

Product development and R&D activities

In 2021, the Company continued its research and development work. The product being developed is, among others, PatchECG, which is expected to launch in late 2022 or early 2023. The device is limited to one ECG channel and its functionally focuses on the ease of use, while providing good quantitative data over a period of 7-14 days.

The development work is underway also on the new software for PocketECG, called NextGen. The delivery of the next generation PocketECG software is expected to yield enhanced productivity in ECG analysis and boost further software development, and it will provide a basis for adding functionalities dedicated to other user groups in the future.

In 2021, efforts also continued on ECG TechBot, for which the Parent received funding from the Polish National Research and Development Center (NCBiR). It is software that uses a set of algorithms for automatic analysis and interpretation of ECG signal based on deep learning methods.

In addition to the products described above, ongoing work is in progress on further new functionalities for the current PocketECG system that will maintain its technological cutting edge ahead of competing solutions.

III. Commentary on results and Group's assets and financial position

III. 1. Commentary on results

In 2021, the Group continued to implement its strategy based on the innovative PocketECG system. The Group's consolidated revenues mainly include:

- revenue from medical services generated by Medi-Lynx, MDG Poland and MDG India;
- subscription revenue generated by Medicalgorithmics S.A. from strategic partnerships, excluding Medi-Lynx and other subsidiaries;
- revenue from PocketECG device sales, excluding Medi-Lynx and other subsidiaries.

Medi-Lynx revenue depends on the number of diagnostic services performed in a given period and the official reimbursement rate for the underlying tests (in the case of "in-network” insurer contracts) or on the sum of average payments per procedure (in the case of insurers with which the Company does not have signed contracts – "out-of-network"). On the other hand, the Parent operates using a subscription model, namely it earns revenue from equipment sales and then from subscriptions of users who sue the equipment as well as the related software and server infrastructure.

Table 8. Key items from the statement of comprehensive income for 2021 and 2020 and the change dynamics in the last financial year

	01.01.2021-31.12.2021	01.01.2020-31.12.2020	Change	Change %
Sales revenue	120 563	111 734	8 829	8%
Operating expenses	(144 808)	(150 079)	5 271	4%
Loss on sales	(24 245)	(38 345)	14 100	37%
Other operating revenues, net	(142 466)	837	(143 303)	(17 120%)
Operating loss	(166 711)	(37 508)	(129 203)	(344%)
Net finance income/ (costs)	2 351	(2 442)	4 793	196%
Loss before tax	(164 360)	(39 950)	(124 410)	(311%)
Net profit/ (loss), *of which*:	**(183 565)**	**(27 676)**	**(155 889)**	**(563%)**
Net profit attributable to Shareholders of the Parent Company	(180 638)	(12 919)	(167 719)	(1 298%)
Net profit/ (loss) attributable to non-controlling interests	(0)	(14 757)	14 757	100%
EBITDA	(149 165)	(21 612)	(127 553)	(590%)

Revenue from sales

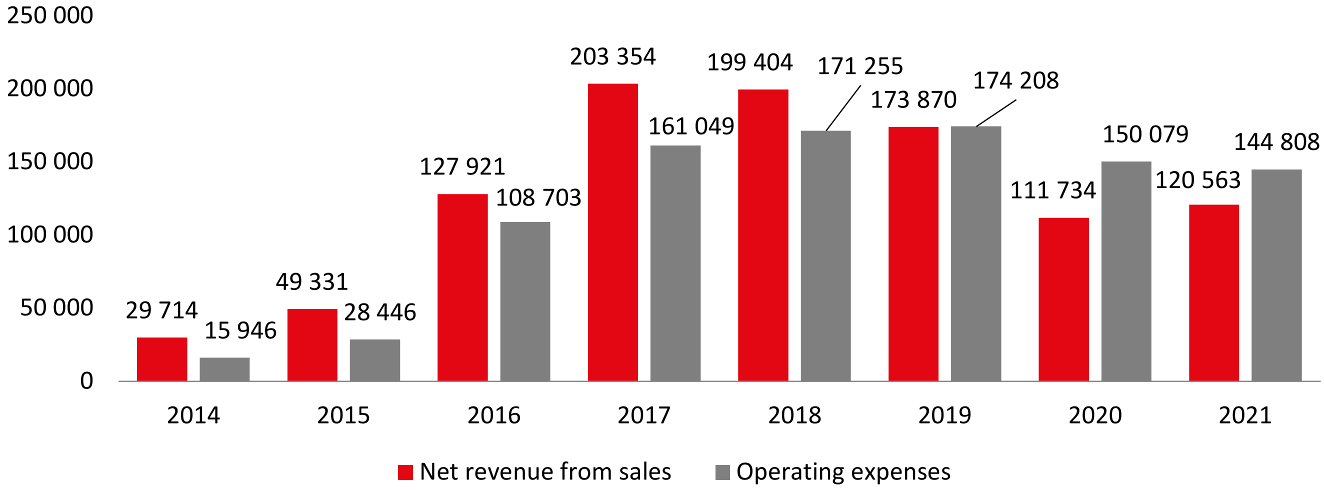
In 2021, the Group's revenue amounted to PLN 120.6 million and increased by 8% compared to 2020. The sum of revenue was impacted by an increase in the volume of services performed and sold by Medi-Lynx (+1.2% versus the comparable previous year), as well as a more favorable structure of tests performed as a result of an increase in sales of high-paying tests and a reduction in low-paying tests. Cumulatively from January to December 2021, there were 59,145 refund claims filed for MCT, Event Monitoring, Extended Holter services performed which was 18.3% more than 50,012 claims filed in the comparable period of 2020.

The positive impact was partially offset by a decline in average test prices, primarily due to the significantly advanced transformation of the business model under which long-term contracts are signed with insurers and for fixed test prices. According to previous assumptions, the business model change from "out-of-network" to "in-network" translates into lower test prices, but is expected to allow significant increase in test volume in the longer horizon.

At the same time, in the first half of this year, an additional provision was established for a part of receivables due from one of the major insurers with which the company had signed a contract (PLN -3.1 million). This adjustment is related to receivables for services that were rendered during the start-up period with this insurer. Talks and efforts are continuing in order to recover these receivables. Receivables from this insurer for services rendered after such start-up period are being repaid as assumed by the Group.

The combined impact of the factors described above translated into an increased nominal revenue of the Group (excluding the impact of USD/PLN exchange rate) – up by PLN 8.8 million compared to 2020. The falling average USD/PLN exchange rate caused the revenue to drop by PLN 0.8 million. An increase in revenue from unrelated parties was recorded by the Parent (PLN +2.8 million) as well as Medicalgorithmics Polska Sp. z o.o. (PLN +0.5 million).

Chart 2. Group sales revenues and operating expenses by year (PLN '000)



In the reporting period, all of the Group's revenue came from sales of PocketECG system, including revenue from sales of services: PLN 118.7 million (PLN 108.5 million in the same period of 2020), i.e. nearly 98% of total revenue, and revenue from sales of equipment to unrelated parties: PLN 1.9 million (PLN 3.3 million in the comparative period). The great majority of revenue, just like in the previous year, was denominated in U.S. dollars

Operating expenses

Table 9. Group sales revenues and operating expenses by year (PLN '000)

	01.01.2021-31.12.2021	01.01.2020-31.12.2020	Change	Change %
Raw materials and consumables used	(7 394)	(8 542)	1 148	13%
Employee benefits	(82 458)	(91 144)	8 686	10%
Amortization and depreciation	(17 546)	(15 896)	(1 650)	(10%)
External services	(33 163)	(30 629)	(2 534)	(8%)
Other	(4 247)	(3 868)	(379)	(10%)
TOTAL:	**(144 808)**	**(150 079)**	**5 271**	**4%**

Raw materials and consumables used

The cost of raw materials and consumable supplies decreased by 13% year-on-year. Medi-Lynx marked a decrease of approx. PLN 0.6 million in materials and energy consumption compared to other consolidated units. At the Parent level, there was also a decrease of approx. PLN 0.4 million in non-consolidated expenses due to the lower volume of equipment sold by the Group compared to the previous year.

Employee benefits

Employee benefit costs decreased by approx. PLN 8.7 million (-10%) compared to 2020. The change in employee benefit costs in the reporting period was mainly influenced by the following factors:

(1) decrease in Medi-Lynx payroll costs (PLN 9.7 million) as a result of a reduction in Medi-Lynx headcount. In 2021, Medi-Lynx's average FTE number decreased by 6% compared to the previous year;

(2) a change in the average USD exchange rate, translating into costs decreased by approx. PLN 0.5 million;

(3) in the Parent, the employee benefit costs increased by approx. PLN 1.4 million. In 2020, during the first wave of the pandemic, a decision was made to temporarily cut FTEs in the second quarter of 2020.

Employee benefit costs represent the most significant item in the Group's operating expense structure (57%). The high share of the employee benefit cost is caused by the nature of the Group's business, whose main asset is people. Both at the Parent level, where the majority of employees are IT specialists and production engineers, as well as of the subsidiary level, where employees include ECG technicians and customer service / sales specialists, the business is based largely on human capital.

Amortisation and depreciation

An increase of PLN 1.7 million (10%) in depreciation/amortization expense was visible in 2021 compared to the same period last year. Depreciation/amortization now accounts for nearly 12% of total operating expenses.

The most significant part of this is the amortization of the Group's customer pool (recognized after the final reconciliation of the purchase price for the interest in Medi-Lynx customer base, and in AMI/Spectocor customer base that was acquired upon a settlement negotiated in December 28, 2016). As estimated by the Management Board, the customer bases will generate economic profits and will be amortized over a period of 20 years. The total amortization expense for the two customer bases in the reporting period was PLN 6.4 million and increased by approx. PLN 0.5 million compared to the same period last year due to the increase in the average USD exchange rate.

In addition, from the Group's point of view, the PocketECG devices that are used to provide diagnostic services by the Group companies are non-current assets, and the value of such equipment is depreciated over a period of 3 years. The total expense in 2021 was PLN 2.2 million (PLN 1.5 million in 2020).

As a result of IFRS 16, the Group recognized right-of-use assets. ROU is depreciated over a period of a lease contract, and the expense in 2021 was PLN 5.0 million (PLN 4.5 million in the comparable period).

Third-party services

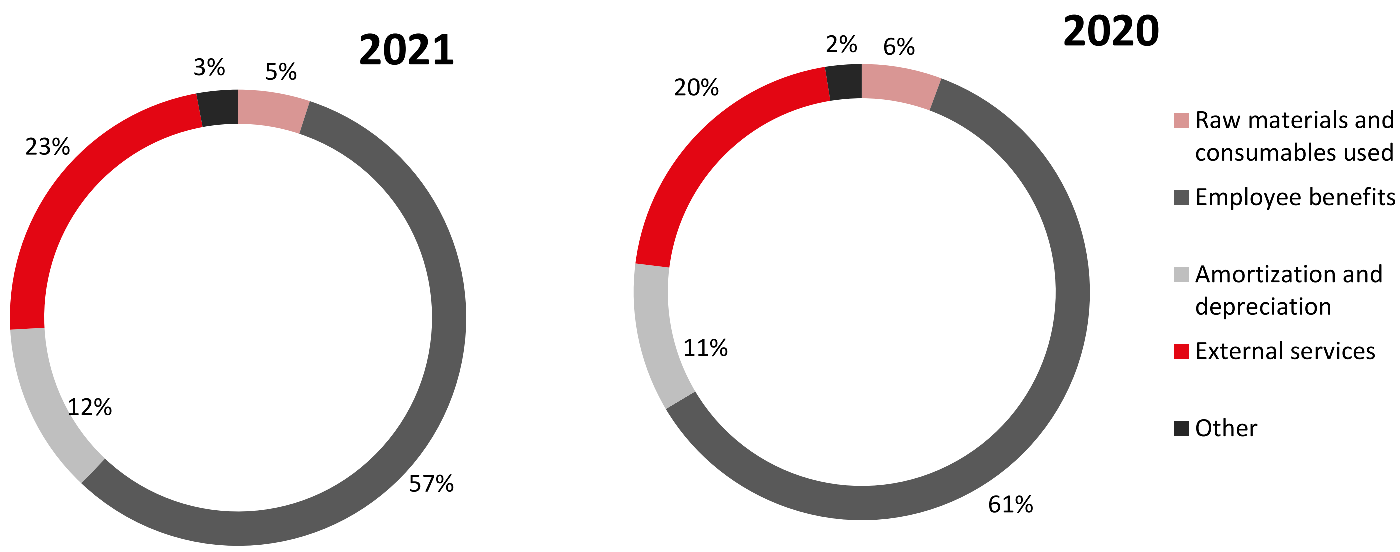
Third-party services account for 23% of the Group's operating expenses, and they increased by 8% compared to the comparative period, amounting to PLN 33.1 million. Among the expenses for third-party services, the key items are telecommunications and Internet services, transportation and courier services, monitoring services and consulting services. The structure of the third-party service expense in the reporting period and the comparative period is presented in Note 10 of the 2021 consolidated financial statements.

When comparing 2021 to 2020, there was a significant increase in consulting and legal expenses, in particular. In 2021, the Group incurred significant costs towards external consultants and law firms with whom it worked on, among other things, strategic options, the issue of potential sales and excise tax sums due from Medi-Lynx (Note 27 to the consolidated financial statements). The increase in transportation and courier costs was caused by, among other things, equipment replacements at Medi-Lynx as well as the need to use more expensive than standard transportation services (overnight shipments) to perform the test services in poor weather conditions during the first quarter of 2021. At the same time, the transportation services are to a certain degree correlated with the volume of tests administered - in the second quarter of 2020, about 25% fewer tests were conducted compared to the second quarter of 2021 due to the lockdown. The transportation costs were also significantly lower during this period. Due to the higher quantity of tests, costs of monitoring activity have also raised (cost of ECG analysis which is partly done by a third party).

The Group committed more resources to marketing activities after the lockdown period of 2021, compared to 2020 when due to the pandemic and the lockdown the Group did not participate in industry scientific conferences, leading to lower marketing costs for the Group then. On the other hand, the Group recognized most of the expense for the implementation of the new IT system (XiFin) in 2020 and, therefore, this item was recorded at a lower level in 2021.

In the reporting period as well as in the comparable period, a major part of rental and lease expenses was cloud storage services, which are not subject to recognition under IFRS 16. In addition, the rent and lease items described in Note 10 to the consolidated financial statements include operating expenses related to office space rental and the cost of leasing low-value office equipment.

Chart 3. Operating expenses structure in 2021 and 2020 (%)



Result on financial activities

Table 10. Financial income and cost in 2021 and 2020 (PLN '000)

	01.01.2021-31.12.2021	01.01.2020-31.12.2020	Change	Change %
Finance income	3 245	179	3 066	1 712%
Finance cost	(894)	(2 621)	1 727	66%
Net finance income	**2 351**	**(2 442)**	**4 793**	**196%**

Financial cost mainly includes interest on loans, interest on the liabilities due to the previous owner of Medi-Lynx shares, interest on finance leases, and foreign exchange differences.

As presented in Note 12 to the consolidated financial statements, the key item affecting the financial income in 2021 is positive unrealized foreign exchange differences (PLN 2.9 million). In the comparative year, negative unrealized exchange differences were PLN 1.6 million, recognized as financial cost. In addition, financial expenses also include interest on the liabilities due to the party which sold Medi-Lynx shares as well as interest on leases – both items at similar levels in both periods.

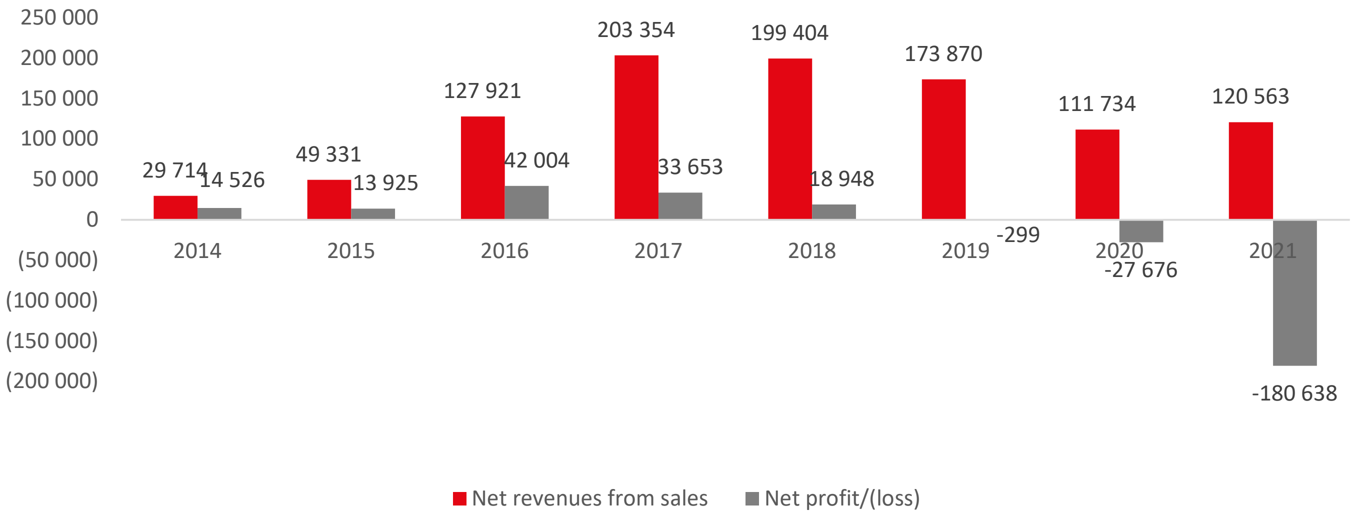
At the balance sheet date, the Parent had a loan (in USD) lent to a consolidated foreign entity (MDG HoldCo). Under IAS 21, this monetary item is part of its net investment in that foreign entity. In the consolidated financial statements, foreign exchange differences (recognized in profit or loss in its separate financial statements) are recognized in other comprehensive income.

Profit and profitability

The net loss generated in 2021 was PLN 180.6 million. The key factor affecting MDG Group's negative financial result was the adjustments written down in relation to *Medi-Lynx CGU* and *MDG S.A. CGU* (more details in Notes 4.7 and 15 to the 2021 consolidated financial statements), for a total of PLN 162.2 million. Influenced by the write-downs and other factors affecting operating revenues and expenses described in the previous sections, the Group recognized a negative sales margin (-20% in 2021 vs. -34% in 2020) and a negative EBITDA (-124% in 2021 vs. -19% in 2020).

The net financial result was positively affected by the full relief of a USD 3.2 million loan, plus accrued interest, which had been granted to Medi-Lynx under the Paycheck Protection Program, as well as the recognition in other operating income certain additional funds (approx. USD 1.9 million), which Medi-Lynx received under Provider Relief Fund Phase 4 funding for U.S. Department of Health and Human Services ("HHS).

Chart 4. Net sales and net profit in PLN '000 in particular years



In 2021, return on assets (ROA) was -158%, down by 148 p.p. from -10% in 2020. Meanwhile return on equity (ROE) in 2021 was -381%, down by 368 p.p. from 2020. The lower level of this ratio was affected by the decline in net profit, the reasons for which are commented above.

Table 11. ROA and ROE in 2021 and 2020 and changes in these ratios during the last financial year

	2021	2020	Change (p.p.)
ROA	-158%	-10%	**(148%)**
ROE	-381%	-13%	**(368%)**

ROA = net profit/total assets as of the end of the period
ROE = net profit/equity as of the end of the period

Cash flows

In 2021, the Capital Group generated a negative balance of operating cash flows. The Group recorded negative flows from investing activities, caused by expenditures on R&D activities (PLN 6.0 million) and on PP&E/non-current tangible assets (PLN 9.9 million). The positive cash flows from financing activities were mainly a result of inflows from share issues (PLN 11.4 million) and proceeds received under the US anti-crisis programs (PLN 15.1 million), however partly offset by repayments towards finance leases (PLN 5.2 million), consumed line of credit facilities (PLN 1.4 million) and liabilities due for the acquired shares in Medi-Lynx (PLN 2.0 million.

Table 12. Selected items of the cash flow statement for the financial years 2021 and 2020 (PLN '000)

	01.01.2021-31.12.2021	01.01.2020-31.12.2020	Change	Change %
Net cash from operating activities	(6 479)	(3 956)	(2 523)	(64%)
Net cash from investing activities	(15 776)	(5 005)	(10 771)	(215%)
Net cash from financing activities	17 725	14 008	3 717	27%
Total net cash flow	**(4 530)**	**5 047**	**(9 577)**	**(190%)**
Closing balance of cash	**11 667**	**16 197**	**(4 530)**	**(28%)**

III. 2. Capital Group's asset and financial position

The total asset position as of December 31, 2021 was PLN 114.4 million, a significant decrease compared to the end of 2020, mainly caused by the asset impairment adjustments related to Medi-Lynx CGU and MDG S.A. CGU (more details in Notes 4.7 and 15 to the 2021 consolidated financial statements), for a total of PLN 162.2 million.

The following tables show the Group's key assets and related sources of finance, as well as their changes over the last financial year.

Table 13. Key assets as of the end of 2021 and 2020 and changes in these assets during the last financial year

Assets (PLN '000)	31.12.2021	31.12.2020	Change	Change %
Fixed assets *including:*	**77 664**	**242 663**	**(164 999)**	**(68%)**
Intangible assets	50 571	201 767	(151 196)	(75%)
Property, plant and equipment	26 996	23 535	3 461	15%
Long-term financial assets	97	200	(103)	(51%)
Deferred tax assets	-	17 161	(17 161)	(100%)
Current assets, *including:*	**36 746**	**40 741**	**(3 995)**	**(10%)**
Trade and other receivables	25 079	24 544	535	2%
Cash and cash equivalents	11 667	16 197	(4 530)	(28%)
TOTAL ASSETS	**114 410**	**283 404**	**(168 994)**	**(60%)**

As of the balance sheet date, total non-current assets were PLN 77.7 million, and their share in all assets reached 68%. The key item in non-current assets was intangible assets, and among them the customer bases (PLN 46.0 million) and development work expenditures (PLN 3.4 million). The value of non-current assets dropped by PLN 165.0 million (-68%) compared to December 31, 2020. The change was mainly caused by decreased net value of intangible assets, as a result of the recognized write-down adjusting for the results of the asset impairment test of *Medi-Lynx CGU* and *MDG S.A. CGU* (aggregated -162.2 million) and accrued amortization/depreciation expense (-9.2 million). This decrease was partially offset by development work and other expenses capitalized in 2021 (PLN 6.0 million) and foreign exchange gains (PLN 14.3 million). In addition, the changed value of non-current assets was affected by a decrease in their net value resulting mainly from amortization/depreciation accrued during the period (PLN -9.4 million) and a decrease resulting from reductions in the value of the undepreciated portion of PP&E/non-current tangible assets (PLN -1.1 million). The net increase in PP&E assets was driven by increases in plant & machinery items and other non-current assets (PLN 9.9 million), an increase in non-current assets under construction (PLN 2.9 million), and foreign exchange gains (PLN 1.2 million). Non-current assets were also affected by a decrease in deferred tax assets, mainly due to the unrecognized deferred tax on tax losses.

Current assets were PLN 36.7 million as of December 31, 2021, a decrease of PLN 4.0 million (-10%) compared to December 31, 2020. The share of current assets in all assets reached nearly 32%. Cash (32%) and trade receivables (68%) accounted for the largest part of this asset group. The increase in current assets was primarily a result of positive flows from financing activities.

Table 14. Key items of equity and liabilities as of the end of 2021 and 2020 and changes in these items during the last financial year

EQUITY AND LIABILITIES (PLN '000)	31.12.2021	31.12.2020	Change	Change %
Equity attributable to Shareholders of the Parent Company	**47 385**	**207 355**	**(159 969)**	**(77%)**
Non-controlling interests	9	10	(1)	(16%)
Long-term liabilities *including*:	**26 761**	**38 893**	**(12 131)**	**(31%)**
Credits and loans	8 123	12 128	**(4 005)**	**(33%)**
Other financial liabilities	10 784	17 182	(6 398)	(37%)
Short-term liabilities *including*:	**40 255**	**37 146**	**3 109**	**8%**
Credits and loans	1 519	2 928	(1 409)	(48%)
Other financial liabilities	8 008	7 144	864	12%
Trade and other liabilities	18 416	13 588	4 828	36%
Total liabilities	67 016	76 039	(9 023)	(12%)
TOTAL EQUITY AND LIABILITIES	**114 410**	**283 404**	**(168 994)**	**(60%)**

As of December 31, 2021, equity attributable to Shareholders of the Parent was PLN 47.4 million, a decrease of PLN 160 million (-77%) compared to December 31, 2020. The equity's share in the balance sheet total reached 41%. The change in equity attributable to Shareholders of the Parent was mainly due to the net loss in the current reporting period (PLN -180.6 million) and the Series H issue of the Parent shares (PLN +11.7 million).

As of the balance sheet date, long-term liabilities were PLN 26.8 million (23% of the balance sheet total), and the key item in this group of liabilities was financial liabilities (PLN 10.8 million) and the long-term portion of borrowings (PLN 8.1 million). The value of long-term liabilities dropped by PLN 12.1 million (+31%) compared to December 31, 2020.

In borrowings, the decrease (-$4.0 million) was caused by the forgiveness of the loan originally received in 2020 under CARES Act support program of the U.S. Congress (USD -3.2 million; PLN 12.1 million), which was partially offset by a loan received in 2021 under Paycheck Protection Program (USD 2.0 million; PLN 8.1 million). Financial liabilities decreased (PLN -6.4 million) following a drop in the lease liabilities item and as a result of decreased liabilities outstanding for the acquired share in Medi-Lynx.

As of the balance sheet date, short term liabilities were PLN 40.3 million (35% of balance sheet total). A key item in this group of liabilities was accruals (PLN 9.0 million), which included an advance for services paid out by Medicare ($1.3 million) to support Medi-Lynx's ongoing liquidity. The short-term portion of financial liabilities included liabilities outstanding towards the acquired interest in Medi-Lynx (PLN 2.6 million) and liabilities to finance leases (PLN 5.4 million). The value of short-term liabilities increased by PLN 3.1 million (+8%) compared to December 31, 2020, with the main cause being the raise in trade liabilities (PLN +4.8 million). In addition, as a result of the Parent's overdraft, as of the balance sheet date, the outstanding balance was PLN 1.4 million (and as of the end of the 2020 the outstanding balance was PLN 2.8 million). The remaining part of the change was affected by changing exchange rates (USD/PLN conversions).

III. 3. Financial resources and financial assets

In 2021, the Group's cash balance decreased by PLN 4.5 million (-28%) and amounted to PLN 11.7 million as of December 31, 2021. As described in Section III.2 of this report, the change was primarily the result of negative flows from operating and investing activities, offset by positive flows from financing activities related to the share issues and funding received under anti-crisis programs.

Note 4.1 of the consolidated financial statements describes the circumstances of the key uncertainty as to the Parent's and the Group's continuation as a going concern over the next 12 months counted from the balance sheet date. The key issue and uncertainty in the Group's ability to continue as a going concern is whether it will secure financing. Based on the conservative assumptions of the Management Board, the current cash position indicates the need to procure additional financing over an approximate horizon of two months, either in the form of debt finance or via sale of certain assets. Based on the current assumptions, the Group's cash demand is in the range of USD 4 - 6 million. Out of prudence, the Management Board is pursuing more finance.

Share issue

On October 26, 2021, the Extraordinary General Meeting passed a resolution increasing the Company's share capital through issue of new ordinary bearer shares, series H.

On November 15, 2021, the decision was made to launch a public offer by private placement. The book-building process was carried out from November 15 to November 24, 2021, and subscription agreements for Series H Shares were concluded by December 3, 2021. There were 648,556 series H stocks issued at the issue price of PLN 18.00 per share. The total issue value was PLN 11.7 million. The resulting capital increase was registered by the District Court of Warsaw, on December 15, 2021. The issue cost was PLN 615 thousand and was charged directly to the supplementary capital of Medicalgorithmics S.A. The Company received the proceeds from the issue on December 16, 2021. For more information on share issues, please see Current Reports 43/2021, 48-50/2021, 52/2021, 54/2021 and 5/2022.

Table 15. Structure of the Group's financial assets as of the end of 2021 and 2020 (PLN '000)

Financial assets	31.12.2021	31.12.2020	Change	Change %
Cash in hand	8	7	1	19%
Cash in bank accounts	11 236	15 767	(4 531)	(29%)
Term deposits	423	423	(0)	(0%)

Credits and loans received

On December 4, 2020, the Company opened an overdraft with Bank Millennium S.A. (PLN 16 million). As of the balance sheet date, the available credit line was PLN 9.4 million (April 30, 2022: PLN 6.0 million), including consumed PLN 1.4 million as of December 31, 2021 and PLN 4.7 million as of April 25, 2022. According to the credit facility agreement, the limit will be gradually reduced at a rate of PLN 860 thousand per month until the end of November 2022.

In the context of the circumstances described in Note 4.1 to the consolidated financial statements, the key issue for the Group's continuity of operations is its ability to timely repay the credit facility from Bank Millennium S.A., also taking into account the risk of required early repayment before the contracted maturity date. The risk of early repayment stems from the agreement itself which allows the Bank to terminate the agreement in the event of a material deterioration of the borrower's position or a loss of its creditworthiness, which the bank could recognize in the case of the Company's situation. Furthermore, in the event of any additional debt finance taken out by the Company the credit facility agreement requires that the bank be provided with the same security as the one given to the party providing such debt finance, and in certain transactions which are currently being considered this could be impossible. Due to the uncertainty surrounding the timeframe and amounts of the future financing, the Group is negotiating with the bank options and conditions for deferred repayment without termination of the credit facility agreement and premature triggering of the due date.

Funding under anti-crisis programs

On 23 March 2021, Medi-Lynx was notified of the second loan under the Paycheck Protection Program (USD 2.0 million). The Group received the loaned funds in late March 2021 and is going to use them towards certain operating activities, including payroll expenses. According to CARES Act, the entire loan or its part is nonrefundable as long as it utilized towards costs that are eligible under the Act. Any remaining part of the loan (if refundable, as well) will be repaid within 60 months and subject to 1% interest rate per annum. At the date of this report, its application is still awaiting the approval of the Small Business Administration (SBA).

At the same time, in the fourth quarter of 2021, Medi-Lynx received approximately USD 1.9 million in Provider Relief Fund Phase 4 funding for U.S. Department of Health and Human Services ("HHS") providers to cover revenue lost due to SARS-CoV-2 and to cover costs for healthcare-related expenses. The Management Board has filed appropriate submissions with HHS to document this loss and in its opinion the funds are forgivable.

In addition, to support Medi-Lynx's current liquidity, Medicare (US public insurer) paid out USD 2.7 million (PLN 10.7 million) as an advance payment on account of the services. This amount will be deducted from amounts due for tests which were provided to Medicare, based on an arranged repayment timetable, at a specified percentage rate of Medicare payments that are due to Medi-Lynx, over a period of 29 months counted from April 3, 2021. If there is any outstanding balance after that date, it will matured and subject to interest at 4 % per annum. As of the balance sheet date, the outstanding liability towards Medicare was USD 1.3 million (PLN 5.1 million).

In addition, in April 2022, Medi-Lynx applied for a partial tax refund of personal taxes paid under the Employee Retention Credit (ERC) program to U.S. Internal Revenue Service (IRS). According to AUTOMATIC DATA PROCESSING, INC. (ADP provides the payroll process support to Medi-Lynx), based on the new regulations of *Consolidated Appropriations Act* of 2021 and *American Rescue Plan Act*, Medi-Lynx is eligible for such public aid with respect to quarters 1-3 of 2021. The Group has not verified this information through other third-party advisors other than ADP.

ADP filed tax refund applications on behalf of Medi-Lynx for a total of USD 4.5 million.

Also, ADP informed Medi-Lynx that its eligibility for the tax refund and the actual amount are subject to IRS approval, and until then neither the refund nor its final amount is certain (ADP is aware of some refund applications having been rejected). Confirmation of the tax refund applications is expected within approximately two months of their submission. Additionally, according to ADP, a refund, if any, will be paid only within 9 months following the date of submission because of the high turnout of public aid applications pending with IRS. There is no formal procedure for the IRS to expedite the processing of the tax refund application or the resulting payment.

Lending

The Group did not make any loans other than intra-group loans, which excluded at the consolidation level.

Financial guarantees and sureties granted or received

Medicalgorithmics S.A is a party to EU agreements for joint financing of investment projects that are aimed at development of its products and services. If the conditions of a development work project are not met, there may occur a risk that the subsidies will need to be returned. The received funding is secured by promissory notes.

As of the balance sheet date, the risk described above was assessed as low. The Company is implementing the development work timely as scheduled.

In 2016, the Parent guaranteed an interest-bearing promissory note of its subsidiary, MDG HoldCo based in USA, which was issued to Medi-Lynx Monitoring, Inc. as payment for the acquisition of shares in Medi-Lynx. In addition, until the price for those shares is paid in full, MDG Holdco's shares in Medi-Lynx have been pledged in favor of Medi-Lynx Monitoring, Inc.On December 31, 2020, an agreement was signed to acquire the remaining 25% interest in Medi-Lynx, and by negotiations the Parties determined the purchase price for 25% interest in Medi-Lynx at USD 0.5 million. Part of the executed agreement is an understanding which concerns the repayment of the current liability of MDG HoldCo under the promissory note on account of the acquisition of the 75% interest in Medi-Lynx (on March 30, 2016) – as of December 31, 2020 its value was approx. USD 2 million plus accrued interest. The promissory note liability, together with the purchase price of 25% interest, will be paid by MDG HoldCo in 48 equal monthly installments and bears a fixed interest rate. As of the balance sheet date, the outstanding liability was USD 2.1 million.

In 2018, the Parent issued an irrevocable and unconditional bank guarantee to secure PLN 404 thousand of the Company's liabilities under a commercial lease of premises at Al. Jerozolimskie 81 in Warsaw, Poland. The beneficiary under this guarantee is Central Tower 81 Sp. z o.o. (as lessor). The guarantee remains valid from the date of its issue to August 30, 2024.

In connection with the credit facility, in December 2020 a collateral was established – a deed of the Company’s submission to statutory enforcement of debts in favor of the bank (according to Article 777 §1.5 of the Polish Civil Procedure Code), against all of the Company’s assets, to secure its obligation to repay any and all monetary claims to the Bank as it may seek under the credit facility up to PLN 25.6 million. The credit facility is partly secured with a bank guarantee of PLN 12.8 million, valid until 28 February 2023, issued by Bank Gospodarstwa Krajowego based on a line of guarantee agreement with PLG-FGP Liquidity Guarantee Fund under the Polish government’s Anti-Crisis Shield program. The guarantee secures 80% of the loan amount.

Significant off-balance sheet items

Other than the guarantee described above, there are no other significant off-balance sheet items.

IV. Discussion of the Company’s performance and the Company’s asset and financial position

IV. 1. Discussion of the Company’s performance

In 2021, the Company continued its strategy and operated based on a subscription model which involves selling devices and then charging a monthly subscription fee for their use and as well as for the use of the related software and server infrastructure. The below table shows the key items in the statement of comprehensive income for 2021 and 2020.

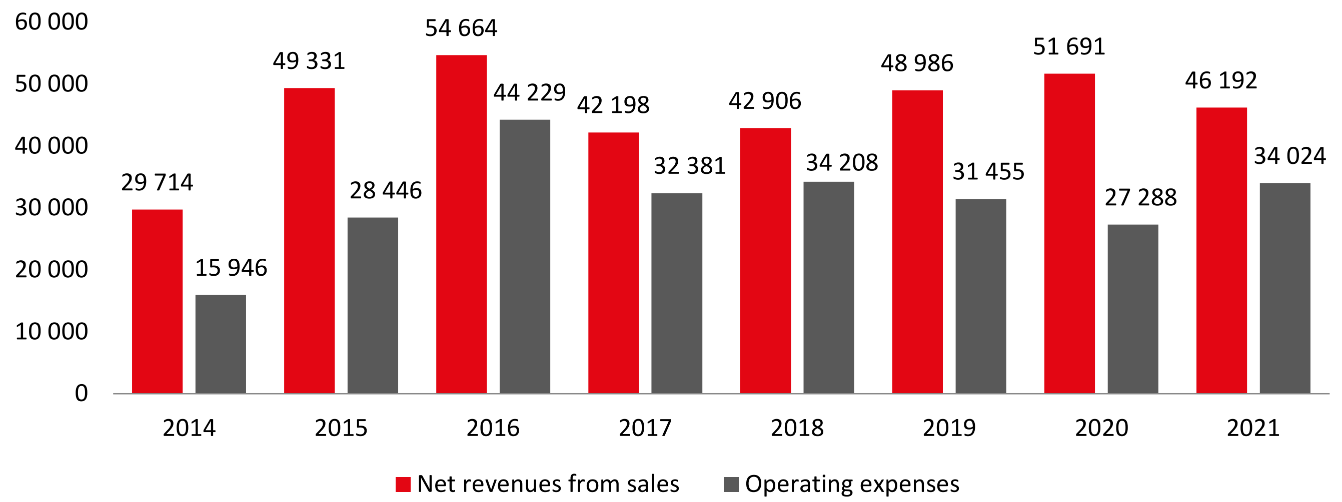
Table 16. Key items of the statement of comprehensive income for 2021 and 2020, and changes over the last financial year (in PLN ’000)

	01.01.2021-31.12.2021	01.01.2020-31.12.2020	Change	Change %
Sales revenue	46 192	51 691	(5 499)	(11%)
Operating expenses	34 024	27 288	6 736	25%
Profit on sales	12 168	24 403	(12 235)	(50%)
Other operating revenue/(expenses), net	(25 338)	(3 141)	(22 197)	707%
Net finance income/(costs)	(158 841)	523	(159 364)	(30 473%)
Profit before tax	(172 011)	21 784	(193 795)	(890%)
Net profit	(172 369)	21 205	(193 574)	(913%)
EBITDA	(9 168)	24 062	(33 230)	(138%)

Revenue from sales

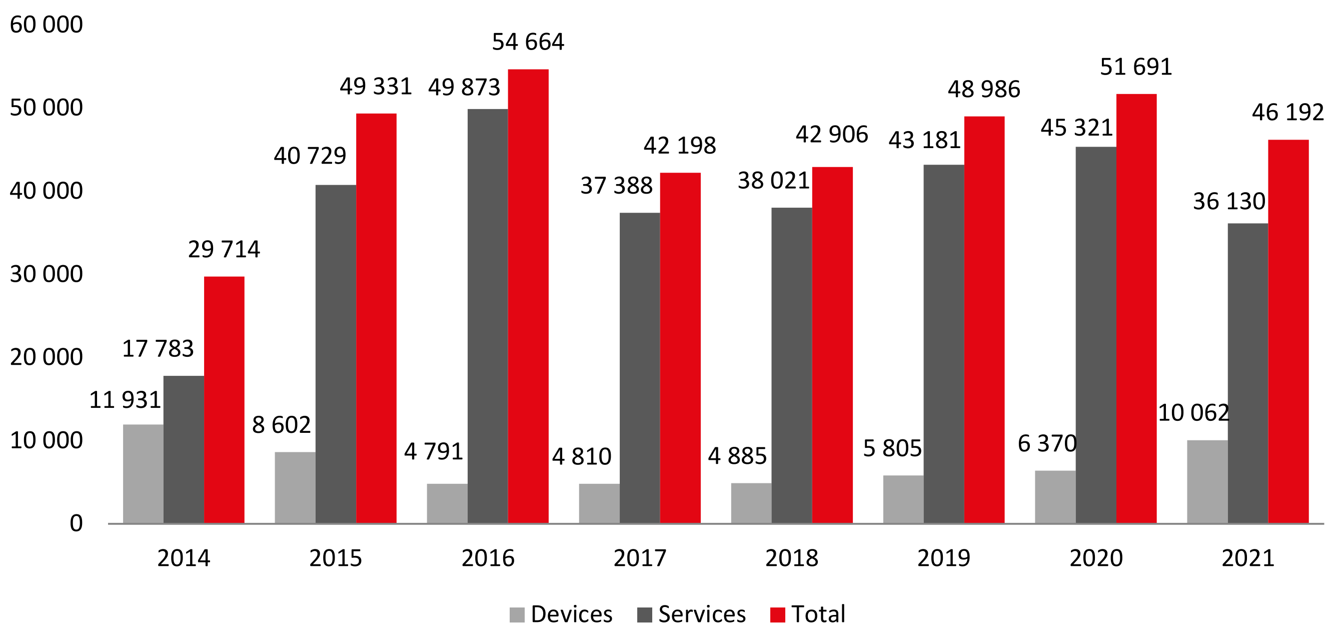
In 2021, revenue of Medicalgorithmics S.A. was PLN 46.2 million, a decrease by 11% compared to 2020. The Parent's revenue is generated mainly in USA by providing equipment, maintenance services and collecting subscription fees from subsidiary Medi-Lynx. This revenue was PLN 32.2 million in 2021, down by 21% from 2020. It generated higher sales of goods and services in its overseas markets (Europe, Australia and Canada), with 2.3 million more year-on-year. In addition, the higher average EUR/PLN exchange rate had a positive impact on the sum of revenue in 2021.

Chart 6. The Company's sales revenue and operating expenses in particular years (PLN '000)



In 2021, all of the Company's revenue came from sales of PocketECG system, including revenue from sales of devices: PLN 10.1, and revenue from sales of services: PLN 36.1 million (compared to 2020: PLN 6.4 million and 45.3 million, respectively). Revenues from sales of services included software user fees, data analysis services and maintenance services, and in 2021 amounted to 78% of total revenues (and 88% in the compared period).

Chart 7. Sales revenue by type in particular years (PLN '000)



The Company earns the great majority of its sales revenues in USD. In 2021, 84% of the sales revenue was in USD (91% in 2020).

Operating expenses

Table 17. Structure of operating expenses in 2021 and 2020 (PLN '000)

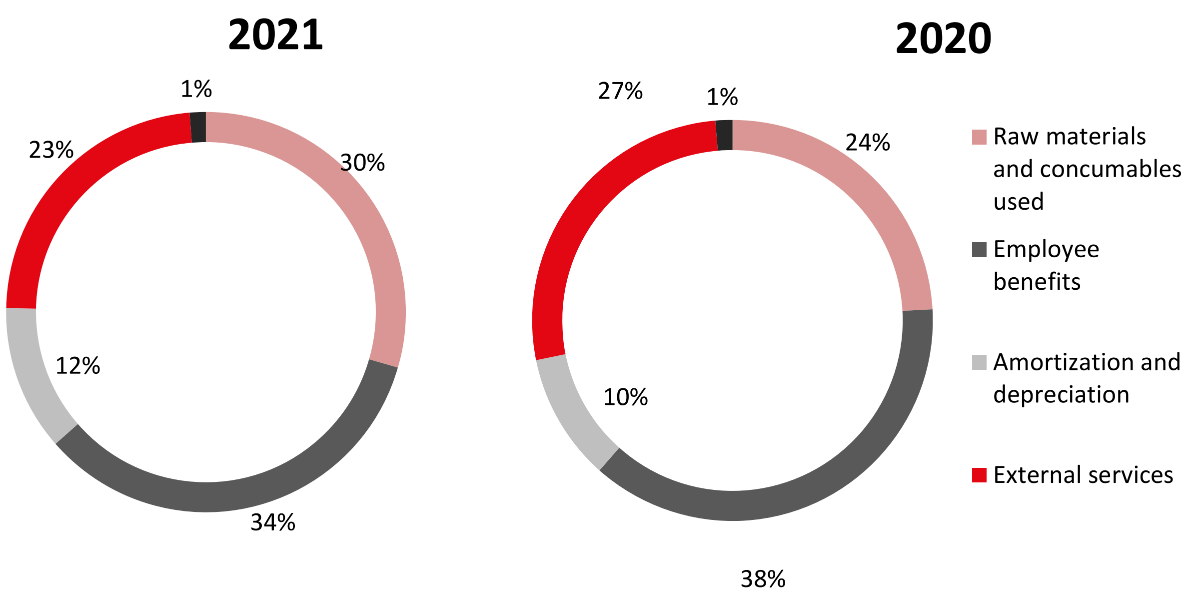
	01.01.2021-31.12.2021	01.01.2020-31.12.2020	Change	Change %
Raw materials and consumables used	(10 026)	(6 580)	(3 446)	(52%)
Employee benefits	(11 604)	(10 218)	(1 386)	(14%)
Amortization and depreciation	(4 002)	(2 800)	(1 202)	(43%)
External services	(7 944)	(7 319)	(625)	(9%)
Other	(448)	(371)	(77)	(21%)
TOTAL:	**(34 024)**	**(27 288)**	**(6 736)**	**(25%)**

Employee benefits, which included payroll and related surcharges, were the key item in operating expenses. The high share of this cost in the overall expense structure (34% of all operating expenses) is caused by the business profile of Medicalgorithmics S.A. which is based mainly on the development of new technologies related to manufacturing and software. The Company builds its competitive advantage by leveraging its highly qualified team. During the reporting period, the Company recorded an increase in the salaries and wages expense compared to the previous year. Lower costs were reported in 2020 because FTEs were temporarily reduced due to the first wave of the pandemic.

The second largest item in 2021 operating expenses was raw materials and supplies consumed (29%). The raise was due to increased number of devices sold after replacements in the U.S. when GSM and CDMA frequencies were gradually phased out there, hence causing a need for LTE-compatible devices.

Another key item in 2021 operating expenses was third-party services (23%). In the third-party services, the major cost was related to IT services, cloud storage services and consulting services. In the reporting period, the Company recorded an increase in costs of third-party services, compared to the comparable period. It resulted mainly from the increased expenses for the consulting services, because the Company was preparing and consulting to procure finance (as informed in Current Report 6/2022). In 2021, the Company incurred high cost of IT services, which included software and IT maintenance consulting – a major component in the development of the Company's new technology.

Chart 8. Structure of operating expenses in 2021 and 2020 (in %)



Result on financial activities

Table 18. Finance income and costs in 2021 and 2020 (PLN '000)

	01.01.2021-31.12.2021	01.01.2020-31.12.2020	Change	Change %
Finance income	12 059	3 259	8 800	270%
Finance cost	(170 900)	(2 736)	(168 164)	(6 145%)
Net finance income	**(158 841)**	**523**	**(159 364)**	**(30 473%)**

In 2021, the Company reported a loss from its financing activities (PLN 158.9 million). Financial income mainly consisted of accrued interest on loans lent to associated entities (PLN 3.4 million) and foreign exchange gains (PLN 8.5 million). Financial cost primarily included a PLN 94.8 million adjustment for the impaired value of shares in subsidiary MDG HoldCo, and a PLN 75.9 million written down on account of loans lent to MDG Holdco. Details of impairment tests and credit risk estimates are presented in Note 2.7 to the 2021 separate financial statements of the Company.

Profit and profitability

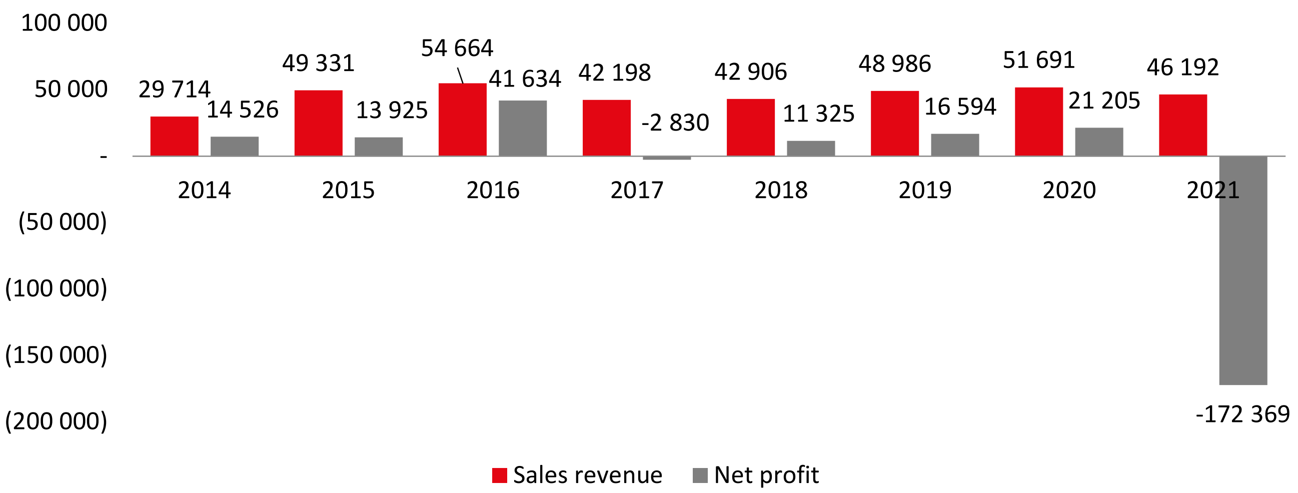
In 2021, Medicalgorithmics S.A. reported a net loss of PLN 172.4 million (compared to profit of PLN 21.2 million in the same period last year). The return on sales in 2021 dropped to -373% (from 41% in 2020), due to the following factors:

- as a result of the impairment test of non-current assets and the estimation of credit risk, intangible assets were adjusted by writing down PLN 21.7 million and receivables by PLN 3.5 million, charged to other operating expenses in 2021;

- as a result of the impairment test and the estimation of credit risk, shares held were adjusted by writing down PLN 94.8 million and loans lent to MDG Holdco by PLN 75.9 million, charged to financial cost in 2021.

The sales margin and EBITDA were 26% and -22%, respectively (and 47% in 2020).

Chart 9. Net sales and net profit in PLN '000 in particular periods



Cash flows

In 2021, Medicalgorithmics S.A. generated a negative balance of operating and investment cash flows as a result of expenses incurred for development work. Positive cash flows from financing activities were a result of mainly proceeds from the issued shares (PLN 11.6 million).

Table 19. Selected items of the cash flow statement for the financial years 2021 and 2020 (PLN '000)

	01.01.2021-31.12.2021	01.01.2020-31.12.2020	Change	Change %
Net cash from operating activities	(3 138)	950	(4 088)	(430%)
Net cash from investing activities	(7 705)	(4 146)	(3 559)	(86%)
Net cash from financing activities	10 720	2 038	8 682	426%
Total net cash flows	(123)	(1 158)	1 035	89%
Closing balance of cash	**706**	**829**	**(123)**	**(15%)**

IV. 2. Company's asset and financial position

The total asset position as of December 31, 2021 was PLN 70.1 million, a significant decrease by PLN 161.8 million (70%) compared to the end of 2020. The following tables show the key assets of the Company and related sources of finance, as well as their changes over the last financial year.

Table 20. Key assets as of the end of 2021 and 2020 and changes in these assets during the last financial year

ASSETS (PLN '000)	31.12.2021	31.12.2020	Change	Change %
Fixed assets including:	**8 270**	**189 431**	**(181 161)**	**(96%)**
Intangible assets	3 707	22 224	(18 517)	(83%)
Property plant and equipment	3 016	3 939	(923)	(23%)
Long-term financial assets	97	65 727	(65 630)	(100%)
Shares in subsidiaries	1 450	96 221	(94 771)	(98%)
Current assets *including*:	**61 802**	**42 403**	**19 399**	**46%**
Inventories	7 138	4 305	2 833	66%
Trade and other receivables	53 958	37 269	16 689	45%
Cash and cash equivalents	706	829	(123)	(15%)
TOTAL ASSETS	**70 072**	**231 834**	**(161 762)**	**(70%)**

The total asset position as of December 31, 2021 was PLN 70.1 million, a significant decrease by PLN 161.8 million (70%) compared to the end of 2020. The following tables show the key assets of the Company and related sources of finance, as well as their changes over the last financial year.

As of December 31, 2021, total non-current assets were PLN 8.3 million, and their share in all assets reached 12%. They included primarily intangible assets (45% of total non-current assets), PP&E/tangible assets (36%), and shares in subsidiaries (18%).

The main item in intangible assets was development work (PLN 3.3 million) as described in Note 12 to the Company's separate financial statements for 2021. The key item in PP&E/tangible assets was right-of-use assets (PLN 2.1 million).

In 2020, non-current financial assets primarily included loans lent to MDG Holdco to finance the acquisition of the Medi-Lynx interest and to provide finance for this subsidiary's operations (PLN 65.5 million). As of June 30, 2021, the Management Board identified certain indications of impairment of the interest held in MDG Holdco, thus an impairment test was performed. Credit risk losses were estimated in relation to loans lent to this subsidiary (Medi-Lynx CGU). The conducted test has shown an impairment loss on shares and they were adjusted by writing down PLN 15.7 million. As a result of the impairment test and the estimation of credit risk (as of December 31, 2021), the value of the adjustment written down was further increased by PLN 79.1 million, and a new adjustment was applied to write down PLN 75.9 million from the value of loans lent to MDG Holdco. Details of impairment tests and credit risk estimates are presented in Note 2.7 to the separate financial statements.

Current assets at the end of 2021 amounted to PLN 61.8 million or 88% of total assets. Trade and other receivables were the top item in this asset group with 87% of total current assets. Current assets increased by nearly PLN 20 million year-on-year mainly due to a high balance of receivables due from associated Medi-Lynx. Trade receivables due from this entity have increased by PLN 16.1 million after providing it with support to improve Medi-Lynx's cash position during a low revenue period caused by the change in the business model as well as the pandemic. On December 31, 2021, the value of receivables from affiliate Medi-Lynx was adjusted by PLN 3.5 million.

Table 21. Key items of equity and liabilities as of the end of 2021 and 2020 and changes in these items during the last financial year

EQUITY AND LIABILITIES (PLN '000)	31.12.2021	31.12.2020	Change	Change %
Equity	**56 148**	**217 458**	**(161 310)**	**(74%)**
Long-term liabilities including:	**6 257**	**7 437**	**(1 180)**	**(16%)**
Provision for deferred income tax	1 322	2 992	(1 670)	(56%)
Other financial liabilities	1 246	1 953	(707)	(36%)
Accruals	3 440	1 593	1 847	116%
Short-term liabilities including:	**7 667**	**6 939**	**728**	**10%**
Credits and loans	1 434	2 834	(1 400)	(49%)
Other financial liabilities	1 067	875	192	22%
Trade and other liabilities	4 340	2 988	1 352	45%
Total liabilities	**13 924**	**14 376**	**(452)**	**(3%)**
TOTAL EQUITY AND LIABILITIES	**70 072**	**231 834**	**(161 762)**	**(70%)**

The equity as of December 31, 2021 was 56.1 million (-74% year on year). The decrease in equity was due to the net loss recognized at PLN -172.4 million. The value of equity was also affected by the series H issue of PLN 11.1 million.

Long-term liabilities as of December 31, 2021 were PLN 6.3 million and decreased by PLN 1.2 million year on year (-16%). The decrease was caused by the changed value of provisions, namely a lower income tax provision and the reclassification of the employee vacation provision to a short-term liability. The value of long-term liabilities was also affected by subsidies received by the Company from the European Union funds for its development work (recognized in accruals).

As of December 31, 2021, short-term liabilities were PLN 7.7 million and increased by PLN 0.7 million year on year (+10%). In the fourth quarter of 2020, the Company signed a PLN 16 million overdraft facility (the total sum available is reduced monthly throughout the term of the facility). As of the balance sheet date, the Company consumed PLN 1.4 million, which was recognized in borrowings (short term liabilities).

IV. 3. Cash and financial assets

In 2021, the Company's cash balance decreased by PLN 0.1 million (-15%) and amounted to PLN 0.7 million as of December 31, 2021. The change is primarily due to negative cash flows from investing activities, as a result of costs incurred for development work, and negative cash flows from operating activities, offset by positive cash flows from financing activities.

Note 2.1 of 2021 financial statements describes the circumstances of the key uncertainty as to the Parent's and the Group's continuation as a going concern over the next 12 months counted from the balance sheet date. The key issue and uncertainty in the Group's ability to continue as a going concern is whether it will secure financing. Based on the conservative assumptions of the Management Board, the current cash position indicates the need to procure additional financing over an approximate horizon of two months, either in the form of debt finance or via sale of certain assets. Based on the current assumptions, the Group's cash demand is in the range of USD 4 - 6 million. Out of prudence, the Management Board is pursuing more finance.

Table 22. Structure of the Company's cash and financial assets as of the end of 2021 and 2020 (PLN '000)

Financial assets	31.12.2021	31.12.2020	Change	Change %
Cash in hand	8	7	1	19%
Cash in bank accounts	275	399	(124)	(31%)
Term deposits	423	423	(0)	(0%)

Credits and loans received

On December 4, 2020, the Company opened an overdraft with Bank Millennium S.A. (PLN 16 million). As of the balance sheet date, the available credit line was PLN 9.4 million (April 30, 2022: PLN 6.0 million), including consumed PLN 1.4 million as of December 31, 2021 and PLN 4.7 million as of April 25, 2022. According to the credit facility agreement, the limit will be gradually reduced at a rate of PLN 860 thousand per month until the end of November 2022.

In the context of the circumstances described in Note 2.1 to the consolidated financial statements, the key issue for the Group's continuity of operations is its ability to timely repay the credit facility from Bank Millennium S.A., also taking into account the risk of required early repayment before the contracted maturity date. The risk of early repayment stems from the agreement itself which allows the Bank to terminate the agreement in the event of a material deterioration of the borrower's position or a loss of its creditworthiness, which the bank could recognize in the case of the Company's situation. Furthermore, in the event of any additional debt finance taken out by the Company the credit facility agreement requires that the bank be provided with the same security as the one given to the party providing such debt finance, and in certain transactions which are currently being considered this could be impossible. Due to the uncertainty surrounding the timeframe and amounts of the future financing, the Group is negotiating with the bank options and conditions for deferred repayment without termination of the credit facility agreement and premature triggering of the due date.

Share issue

On October 26, 2021, the Extraordinary General Meeting passed a resolution increasing the Company's share capital through issue of new ordinary bearer shares, series H. On November 15, 2021, the decision was made to launch a public offer by private placement. The book-building process was carried out from November 15 to November 24, 2021, and subscription agreements for Series H Shares were concluded by December 3, 2021. There were 648,556 series H stocks issued at the issue price of PLN 18.00 per share. The total issue value was PLN 11.7 million. The resulting capital increase was registered by the District Court of Warsaw, on December 15, 2021. The issue cost was PLN 615 thousand and was charged directly to the supplementary capital of Medicalgorithmics S.A. The Company received the proceeds from the issue on December 16, 2021. For more information on share issues, please see Current Reports 43/2021, 48-50/2021, 52/2021, 54/2021 and 5/2022.

Lending

In 2016, the Company lent a total of $11.7 million to subsidiary MDG HoldCo. The purpose of the loans was to finance the acquisition of Medi-Lynx shares and provide finance for the subsidiary's operations. In 2017, the Company lent a total of $6.8 million to subsidiary MDG HoldCo, with the funds utilized towards the liabilities it owed to AMI/Spectocor for the acquired customer base. In the first quarter of 2021, a loan of USD 400,000 was granted to settle the amount due to the seller of the Medi-Lynx interest. As of December 31, 2021, the Management Board recognized an impairment loss on financial assets and applied a full adjustment by writing down the value of the loans. Details of impairment tests related to the lending are presented in Note 2.7 to the 2021 separate financial statements.

Financial guarantees and sureties granted or received

The Company is a party to EU agreements for joint financing of investment projects that are aimed at development of its products and services. If the conditions of a development work project are not met, there may occur a risk that the subsidies will need to be returned. Subsidies received are secured by promissory notes. As the reporting date description above risks zostało ocenione jako wątpliwe. The Parent is implementing the development work timely as scheduled.

In 2016, the Parent guaranteed an interest-bearing promissory note of its subsidiary, MDG HoldCo based in USA, which was issued to Medi-Lynx Monitoring, Inc. as payment for the acquisition of shares in Medi-Lynx. In addition, until the price for those shares is paid in full, MDG Holdco's shares in Medi-Lynx have been pledged in favor of Medi-Lynx Monitoring, Inc.

On July 16, 2018, Medicalgorithmics S.A. issued an irrevocable and unconditional bank guarantee to secure PLN 404 thousand of the Company's liabilities under a commercial lease of premises at Al. Jerozolimskie 81 in Warsaw, Poland. The beneficiary under this guarantee is Central Tower 81 Sp. z o.o. (as lessor). The guarantee remains valid from the date of its issue to August 30, 2024.

In connection with the credit facility, a collateral was established – a deed of the Company's submission to statutory enforcement of debts in favor of the bank (according to Article 777 §1.5 of the Polish Civil Procedure Code), against all of the Company's assets, to secure its obligation to repay any and all monetary claims to the Bank as it may seek under the credit facility up to PLN 25.6 million. The credit facility is partly secured with a bank guarantee of PLN 12.8 million, valid until 28 February 2023, issued by Bank Gospodarstwa Krajowego based on a line of guarantee agreement with PLG-FGP Liquidity Guarantee Fund under the Polish government's Anti-Crisis Shield program. The guarantee secures 80% of the loan amount.

V. Other material information on operations of the Issuer and the Capital Group

V. 1. Ongoing research and development projects

In 2020, the Group successfully launched yet another one, the fourth generation of PocketECG system, as well as a software update enabling the Extended Holter service. The fourth generation primarily enables the PocketECG device to connect over LTE for more efficient transmission of a continuous ECG signal. The Extended Holter service became an official medical procedure starting in 2020 and is now reimbursed by both public and private insurers in USA. Changes to the software have expanded the list of viable medical procedures up to four, thus complementing the Company's offer under PocketECG system. In addition, the Company implemented a number of minor software upgrades and completed the PocketECG Connect project (software for end-to-end integration of PocketECG with a hospital's network infrastructure).

At the same time, further development work has been carried out to improve the latest version of the PocketECG system and to innovate new solutions in the area of cardiac monitoring. Currently, the key new development projects include:

- PatchECG - a device that enables single-channel offline monitoring.
- ECG TechBot - software that uses a set of algorithms for automatic analysis and interpretation of ECG signal based on deep learning methods.
- NextGen - a new software version for PocketECG;

In 2021, the priority is given to completing the PatchECG certification procedure. The device is limited to one ECG channel and its functionally focuses on the ease of use, while providing good quantitative data over a period of 7-14 days. It will complement the current PocketECG device and provide solutions that are eligible for reimbursement in the US. The decision to expand the portfolio with PatchECG was based on the recommendation of the Advisory Council (Medi-Lynx's advisory body gathering key opinion leaders in the US) and in response to the needs of the US market where competitors offer such patch devices. The expanded portfolio with PatchECG included in it give the Group access to medical facilities that collaborate with providers of both more advanced but also more expensive diagnostics (online devices such as PocketECG) as well as simpler but less expensive offline diagnostic tools (like patch devices).

In the ECG TechBot project, the research team continues to work on a set of algorithms for the automatic analysis and interpretation of ECG signal (algorithms dedicated to rhythm analysis, morphology classification, waveform detection). The ECG TechBot project is expected to enable full automation of the ECG analysis and interpretation processes. The algorithm system will allow verifying the heart rate analysis and the morphology classification. It will reduce the risk of human error in the verification process and optimize operations of the monitoring center. Being the first product in the world, the system will be able to provide real-time analytical results and interpretation of ECG signal that do not require a third-party expert review.

The development work is underway on the new software for PokcetECG, called NextGen. The delivery of the next generation PocketECG software is expected to yield enhanced productivity in ECG analysis and boost further software development, and it will provide a basis for adding functionalities dedicated to other user groups in the future.

The PatchECG and NextGen projects are financed with own funds. ECG TechBot is co-financed by the Polish National Center for Research and Development (NCBiR) with public funds. The estimated total cost of project implementation as well as the total sum of expenses eligible for the funding is PLN 11,188 thousand, with the maximum value of co-financing allowed at the level of PLN 6,335 thousand.

The main costs capitalized from the open development work are salary of the research and development staff. As of the balance sheet date, the Group updated its assessment of the target market potential and the impact of new product commercialization on the Group's performance.

The following table shows the structure of development work expenditures currently in progress.

Table 23. Structure of expenditure on development works in progress at the end of 2021 and 2020 (PLN '000)

	31.12.2021	31.12.2020	Change	Change %
Salaries including overheads	14 601	11 484	3 117	27%
Other	4 829	5 169	(340)	(7%)
TOTAL:	**19 429**	**16 653**	**2 776**	**17%**

V. 2. Other investments in Poland and abroad

The Capital Group is currently not engaged in any investment projects other than those described in this report.

V. 3. Factors and events, especially non-recurring ones, with material bearing on financial performance

In the reporting period, there were no events, other than those described in Sections III - IV which had a material bearing on operations of the Issuer and the Capital Group and the consolidated financial statements for 2021.

V. 4. Material court, arbitration and administrative proceedings

In the period covered by this report, no proceedings were pending before a court, an arbitration body or a public administration authority concerning the Parent Company's liabilities or claims with a value equal to or higher than 10% of the Company's equity. No proceedings were also pending before a court, an arbitration body or a public administration authority concerning liabilities or claims of other Group companies with a value equal to or higher than 10% of the Group's equity.

V. 5. Related party transactions

In the discussed period, there were no transactions with related parties concluded on terms other than arm's length terms.

Transactions with Members of the Parent Company's Management Board and Supervisory Board are described in Sections I.8 and I.9 of this report.

Transactions with related parties of the Parent Company have been discussed in detail in Note 28 to the financial statements of Medicalgorithmics S.A. for 2021.

Shareholders (as related entities)

No decision on dividend payment was made in the financial year.

V. 6. The Management Board's position regarding the possibility of achieving forecasts

The Capital Group did not publish any financial forecasts for the period considered in this report or future periods.

V. 7. Factors in the Issuer's opinion that will affect its results in the next year or later

Without a doubt, the most important factor for the going concern is to secure the finance for the continued operation of the Parent and the Group. As described in Note 4.1 to the consolidated financial statements for 2021, based on the conservative assumptions of the Management Board, the current cash position indicates the need to procure additional financing over an approximate horizon of two months, either in the form of debt finance or via sale of certain assets. Based on the current assumptions, the Group's cash demand is in the range of USD 4 - 6 million. Out of prudence, the Management Board is pursuing more finance.

As long as the financing is obtained (either debt finance or equity investment currently assumed at USD 4 - 6 million), the Company and the Group will be able to continue, subject to other financial assumptions, for at least 12 months after the balance sheet date. However, should the financing procured be lower than assumed, supplemental financing will be needed or certain assets of the Group urgently sold, including:

1. Sale of the entire Medi-Lynx LLC (ML) business;
2. Sale of all or some MDG assets, such as intellectual property rights.

In order to obtain the debt financing or sell the assets, as part of the review of its strategic options, the Management Board (assisted by the Supervisory Board) is carrying out the following activities:

1. The Management Board is in intensive discussions with advisors regarding bridge financing and the potential sale of the Group's assets. Agreements have been signed with two US advisors to find finance, with one of them also seeking an investor or the sale of the Group's assets.
2. As of the date of these statements, the Group does not have detailed terms and conditions of a potential finance / asset sale transaction. The Company is currently holding talks with several parties, however these are not negotiations of the actual terms of such transaction. The Group has not received formal proposals yet. The Group has made business presentations and the analysis of potential transaction scenarios and transaction objects is pending. No binding or non-binding transaction documents have been signed. However, in order to enable the future transaction, in the event it will require a tight timetable and be justified in the context of the Company's plans and strategies related to its and the Group's current operational and financial position, the Management Board summoned the Extraordinary General Meeting for May 10, 2022. The agenda for the meeting included resolutions enabling the future transactions to proceed.

Considering the uncertainty related to the ability to secure financing, which is a key issue and area of uncertainty in the going concern ability of the Group, the Management Board prepared the 2021 financial statements on a going concern basis, taking into account the existence of significant uncertainty as to the Parent's and the Group's continuation as a going concern over the next 12 months counted from the balance sheet date.

There are also other issues and risks, as described further below, that have a material impact on the Group's ability to continue as a going concern. However, it is the procurement of the financing on at least the assumed level or the sale of assets that creates the uncertainty on which depends the continuation of its business by the Company and MDG S.A. Capital Group.

Among the other issues of material impact on the Group's ability to continue as a going concern, there are:

1. The ability to achieve the assumed growth in revenues in the U.S., while maintaining the assumed level of the Group's operating expenses, including costs of equipment manufacturing and technology / sales development.
2. The ability (if needed) to enter into agreements changing the terms of repayment of debts, including a credit facility from Bank Millennium S.A., liabilities due to Medi-Lynx Monitoring, Inc. under the Medi-Lynx acquisition.
3. Public aid for Medi-Lynx which may be eligible for approximately USD 4.5 million in non-refundable funds.

As mentioned above, the Company's and the Group's ability to continue as a going concern is affected by the risk related to the achievement of the expected growth in revenues in the U.S., while maintaining the assumed level of the Group's operating expenses, including costs of equipment manufacturing and technology / sales development. When creating its financial plans and estimating its financing needs, the Group assumed various scenarios of, for example, sales growth and level of costs, therefore determining the necessary minimum finance in the range of approximately USD 4-6 million. To achieve its Medi-Lynx sales targets, the Group assumed a major (up to two times) increase of the sales team. Currently, facing the risk of insufficient financing, the Group has significantly limited such plans and it could have a negative impact on its ability to achieve the assumed sales targets. If unable to achieve the sales level assumed in its forecasts or should costs rise, the need for finance may be greater than originally assumed.

Another key issue for the Company's and Group's continuity of operations is its ability to timely repay the credit facility from Bank Millennium S.A., also taking into account the risk of required early repayment before the contracted maturity date. As of the balance sheet date, the available credit line was PLN 9.4 million (April 30, 2022: PLN 6.0 million), including consumed PLN 1.4 million as of December 31, 2021 and PLN 4.7 million as of April 25, 2022. According to the credit facility agreement, the limit will be gradually reduced at a rate of PLN 860 thousand per month until the end of November 2022. The risk of early repayment stems from the agreement itself which allows the Bank to terminate the agreement in the event of a material deterioration of the borrower's position or a loss of its creditworthiness, which the bank could recognize in the case of the Company's situation. Furthermore, in the event of any additional debt finance taken out by the Company the credit facility agreement requires that the bank be provided with the same security as the one given to the party providing such debt finance, and in certain transactions which are currently being considered this could be impossible. Due to the uncertainty surrounding the timeframe and amounts of the future financing, the Group is negotiating with the bank options and conditions for deferred repayment without termination of the credit facility agreement and premature triggering of the due date.

Discussions are being held with Mr. Andrew Bogdan regarding an extension of payment due dates in order to avoid official enforcement proceedings against Medi-Lynx assets should amounts due to Medi-Lynx Monitoring, Inc. (an entity controlled by Mr. Bogdan who disposed of his interest in Medi-Lynx Cardiac Monitoring, LLC to the Issuer's Group) for the acquisition of Medi-Lynx be late.

The outcome of these discussions with the bank and with Mr. Andrew Bogdan depends on, among other things, perspectives towards the procurement of the new financing or the closure of the asset sale transaction that would feed funds needed to repay the Bank and Medi-Lynx Monitoring, Inc.

In addition, in April 2022, Medi-Lynx applied for a partial tax refund of personal taxes paid under the Employee Retention Credit (ERC) program to U.S. Internal Revenue Service (IRS). According to AUTOMATIC DATA PROCESSING, INC. (ADP provides the payroll process support to Medi-Lynx), based on the new regulations of *Consolidated Appropriations Act* of 2021 and *American Rescue Plan Act*, Medi-Lynx is eligible for such public aid with respect to quarters 1-3 of 2021. The Group has not verified this information through other third-party advisors other than ADP.

ADP filed tax refund applications on behalf of Medi-Lynx for a total of USD 4.5 million.

Also, ADP informed Medi-Lynx that its eligibility for the tax refund and the actual amount are subject to IRS approval, and until then neither the refund nor its final amount is certain (ADP is aware of some refund applications having been rejected). Confirmation of the tax refund applications is expected within approximately two months of their submission. Additionally, according to ADP, a refund, if any, will be paid only within 9 months following the date of submission because of the high turnout of public aid applications pending with IRS. There is no formal procedure for the IRS to expedite the processing of the tax refund application or the resulting payment.

Based on such assumptions, the Group's assets were tested for impairment as described in Note 4.7 "Asset impairment testing" of the consolidated financial statements in order to measure the Group's assets at net selling prices.

In summary, the Management Board informs that:

1. No decision has been made to liquidate the Company or declare its bankruptcy as the prerequisites justifying such decision have not been met. Therefore, it cannot be assumed as *certain* that the Group will fail to be a going concern.
2. However, there is significant uncertainty whether funds can be secured from:
   a. future debt financing,
   b. sale of Medi-Lynx assets;
   c. sale of Medicalgorithmics S.A. assets;
   d. public aid for Medi-Lynx.

In addition, there are other factors, both internal and external, that will directly or indirectly affect financial results achieved in the next year. Among the most important ones, there are:

- possible changes in test reimbursement rates offered by insurers with whom Medi-Lynx signed in-network contracts;
- decrease in average service payments to Medi-Lynx covered by out-of-network collaborations with insurers with whom Medi-Lynx does not have contracts;
- changes on the US medical services market where the Group derives most of its revenue;
- increases in sales to partners with whom the Parent has contracts – it will contribute to further diversification and increase in revenue;
- development of the cardiac diagnostics sector in countries where the Group offers products, and the level of reimbursement available for PocketECG services;
- shortages of components that are necessary to manufacture the devices;
- fluctuations of exchange rates in countries where the Group operates.

V. 8. Prospects for the development of the Capital Group's operations in the upcoming year

The goal of the Parent and Group is to provide shareholders with long-term growth of the Company's value. To this end, the Management Board seeks further developments that will strengthen the Group's position among the leading providers of cutting-edge technology in the field of cardiac telemetry, not only in the United States but also overseas globally. The Group pursues its business objectives by improving its proprietary telemedicine technology and services, conducting research and exploring new directions, developing new algorithms and products (services), as well as by acquiring new customers in both existing and new markets.

The obvious priority in the coming months is to secure the financing as already discussed in Section V.7. At the same time, the Management Board monitors and actively supports sales efforts under contracts that have already been signed with private insurers. Completion of the PatchECG device certification process will be another priority for 2022.

In order to develop and strengthen its market position overseas, the Parent plans to make contracts with new business partners and further develop cooperation with current clients.

At the same time ,it is going to continue the research and development work to improve the latest version of PocketECG system and innovate new solutions in the area of cardiac monitoring, assuming more finance can be secured. For more information on the products under development, please see Section V.1. of this report.

V. 9. Assessment of the feasibility of investment plans

The feasibility of planned investments depends whether the financing is secured as well as on other circumstances already described in Note 4.1 to the consolidated financial statements for 2021.

V. 10. Supply sources and target markets

In the PocketECG manufacturing process, the Parent uses a number of suppliers providing electronic components and subassemblies. Sources of supply are diversified and the Group constantly establishes new business contacts with potential suppliers. The value of deliveries from any single source does not exceed 10% of net sales revenue.

V. 11. Other agreements significant to Group's operations

The Group and the Parent have not entered into any agreements that would be material to its operations, other than those already mentioned above.

V. 12. Liabilities towards pensions and similar benefits

The Group does not create provisions for retirement gratuities and jubilee awards as their impact is immaterial.

VI. Description of material risk factors and risk management methods

The Group is exposed to various risks related to its operations and environment and they may affect achievement of its strategic commitments and goals. Threats and risks are classified into three main categories:

- operational risks;
- financial risks;
- legal risks.

In addition, there is the uncertainty and risk related to the procurement of additional financing as well as on other circumstances already described in Note 4.1 to the consolidated financial statements for 2021.

The Parent's Management Board is responsible for establishing and overseeing the Group's risk management. The risk management policies are designed to identify and analyze risks to which the Group is exposed, set appropriate limits and controls, and to monitor risks and the extent to which their limits are matched. The risk management policies and systems are regularly reviewed in order to update them for any changes in market conditions and changes in the Group's operations. Through appropriate training as well as adopted management standards and procedures, the Group aims at building an activating and nurturing environment of control in which employees understand their roles and responsibilities.

Operational risks

Risk related to strategic objectives

The Group's strategic goal is to become a leading provider of cutting-edge technology in the field of remote cardiac diagnostics in the US as well as in the EU and any developing countries. The Group wants to achieve this through technology development, expansion of sales network in the US, and geographic and product diversification. Due to a number of factors affecting how effective its development strategy is, the Group cannot fully guarantee that all of its strategic goals will be attained. The risk of making wrong decisions due to poor judgment or the Group's inability to adapt to the changing market environment may cause the development strategy to be realized in part only, and any future financial result may turn out below the original assumptions.

Risk associated with technical failures and technology development

The Group's operations are exposed to the risk of failures in software, electronic equipment and IT / telecommunications infrastructure. Frequent technical issues could encourage clients (healthcare centers and electrophysiology professionals) to go for competing solutions. The Group is also subject to data integration process errors and cyber-attacks that could affect the Group's operations and financial results.

The Group's business is heavily dependent on highly specialist systems and ICT technology, and as such it needs to ensure continuous development of the technology it uses in order to maintain its competitive edge on the market. The risk of failing to adapt the Company's product to the dynamic technology environment, including LTE parameters, may prevent its planned growth in markets worldwide.

Risk related to recipient scattering

The Group provides its medical services to a scattered group of recipients (patietns across many different medical facilities), however the number of actual payers (insurers) is limited. If one of the key insurers were to decide to stop reimbursing a given medical procedure that is serviced by the Group, this change could have a noticeable adverse effect on its operating result. In addition, in most markets the Group achieves sales through a single sales partner. Exclusivity clauses incorporated in agreements limit the Group's ability to use any alternative distribution channels. Legal disputes between the Group and individual sales partners could result in prolonged periods of reduced value of PocketECG systems that are distributed by a given partner, or even ended distribution. There is also a risk that a sales partner will not achieve the predefined business target of improving sales output in its market.

Risk related to product concentration

The Group's operations are based mainly on the sale of a single solution, the PocketECG system, plus complementary services available upon sale of a PocketECG device. In the event of a major decline in market demand for the PocketECG system should the Group’s technology lose its competitive advantage or the cardiac diagnostics market break down or any other adverse event occur, either internal or external one, the Group would be exposed to the risk of a significant decline in its sales revenue and, consequently, a deteriorated financial performance and liquidity.

Risk related to key staff

The Group's business is based on high-level executives and professionals specializing in IT systems, software programming, medical devices, digital signal processing, project management, cardiac diagnostics, electrophysiology, and sale of medical services. High demand for staff on the labor market and a limited number of such highly specialized workers and managers in the telemedicine sector make it a significant challenge for the Group to attract and retain the right workforce. The loss of any key individuals may adversely affect continuity of the Group's operations.

Risk related to suppliers

The Group purchases components for the PocketECG manufacturing from a limited number of verified counterparties who guarantee high quality products. In the event of delays in the delivery of the required quantity of a component or a decline in its quality or a significant change in its price, the Group would be forced to seek supplies from alternative sources. Given that the counterparty selection and verification process is a lengthy one, any delay, lower quality of supplied components or interrupted supply could limit or delay the production of PocketECG devices.

Risk of delayed deliveries by the Group

As the PocketECG manufacturing process is a multi-stage one and there is only a limited number of new devices available, there is a risk of delays in deliveries should there be significant raise in orders placed. If the number of PocketECG device ordered grows rapidly, there is a risk of insufficient production capacities at hand to meet the demand from recipients.

Risk related to new and existing certificates

The marketing of the Group's products in new markets requires appropriate certificates, official registrations and approvals of relevant authorities. The Group's solutions are classified as medical devices under U.S. law and subject to many FDA regulations. The Company has the necessary certificates, registrations and approvals for its products but there is a risk these could be cancelled, suspended or otherwise withheld. In addition, the Group may not be able to obtain certificates for new or modified products.

Risk related to sector development and competition

The global telemedicine market has been developing rapidly, with product changes as well as frequent modifications of industry standards and formal patent requirements. As a result, there is a risk that the Group will not be able to adapt to rapid market changes which may lead to deteriorating competitive and financial positions.

Risk related to unforeseeable events

The Group is exposed to effects of numerous events the occurrence of which cannot be predicted or the probability of which it is not able to estimate. Among such events there may be, for example, geopolitical conflicts, terrorism, natural disasters, economic crisis, or public health hardships. If occurred, such unforeseeable events, especially should they accumulate at one time, would cause significant disruption to the Group's operations.

Risk related to SARS-CoV-2

The global economy has been experiencing negative effects of the spreading SARS-CoV-2 virus. The impact of the pandemic and related regulatory actions taken to counter the spread caused a major reduction in revenues and resulted in worse financial results for the Group in 2020. The lower revenue was mainly observed in the U.S. market and primarily caused by a decline in the number of patients receiving ECG tests with the help of PocketECG technology, which consequently led to the decreased number of payment claims filed with insurers. After a major decline in the medical test quantity observed in April 2020, the Group reported a slow increase tests starting from May 2020 as a result of the gradual melting of the economy and certain efforts taken by Medi-Lynx. The upward trend also continued throughout the third and fourth quarters of 2020 and has maintained throughout 2021. Despite the further waves of the pandemic arriving in 2021, the decline in the testing quantity did not return. In the opinion of the Management Board, given the downward trend in the daily new cases reported in the US, progressing vaccinations as well as no further restrictions planned, the impact of the pandemic on the number of reimbursement claims filed will no longer be as significant as in 2020. The Management Board is not expecting the situation to worsen, however any sudden increase in the number of new cases or a decision to impose social and economic lock-down measures could significantly affect the current scale of operations and the ability to achieve the targets as planned.

Financial risks

The following is a summary of financial risks. A detailed description of financial risk management methods and the sensitivity analysis is presented in Note 24 to the 2021 consolidated financial statements and in Note 24 to 2021 financial statements of Medicalgorithmics S.A.

Liquidity risk

In the current situation, the Group's liquidity risk is materializing (defined as loss of ability to repay its liabilities timely and raise funding to finance operations). In particular, this risk is associated with repayments of trade, public/legal and financial liabilities.

Credit risk

The Group is exposed to risk of incurring a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk of the Group is primarily related to the significant concentration of receivables. Recipients of the Group's services are scattered and include, mainly, hospitals, hospital networks, outpatient clinics, private physicians and their groups. Payers, on the other hand, are insurers, which are a smaller group. In connection with the transition to the "in-network" model and the signed insurer contracts, the Group wanted to reduce its credit risk because generally this model provides for a better collection rate. However, in the first half of 2021, significant value of receivables due from one insurer have been written down because, among other things, reimbursement was denied for MCT tests. The Group monitors the types of services provided to mitigate such risks.

Risks related to macroeconomic situation

The Group's operations depend on the macroeconomic situation prevailing in the markets where products and services are or will be distributed, including mainly the United States. The efficiency and, in particular, the profitability of the Group's business depend on, among other things, the economic growth of these countries, their fiscal and monetary policies, the inflation rate, and the level of health care spending. All of these factors have an indirect impact on the Group's revenues and financial performance and may also affect the Group's growth strategy assumed.

With the ongoing war in Ukraine and ongoing SARS-CoV-2 pandemic, the global economic outlook has clearly deteriorated. Sanctions imposed and measures taken to prevent the further spread of SARS-CoV-2, as well as the falling sentiment and changing attitudes among consumers and companies, contribute to the weakening of many economies. Unemployment is expected to rise along with other unfavorable events phenomena, such as payment bottlenecks and more bankruptcies among businesses. All of these factors could have a negative impact on the Group's performance. The Group's companies take the effort to monitor the impact of the global situation on their markets and, to the extent possible, adapt their operations to the changing situation as much as they can.

Risk related to exchange rate volatility

The Group is exposed to foreign exchange risk primarily related to fluctuations in the U.S. dollar against the Polish 'złoty' (PLN). The Group presents financial results in PLN, while most of the Group's transactions are in US dollars. Exchange rate volatility affects mainly the value of the Group's revenue and receivables when converted to PLN. As such, there is a risk of the Polish currency becoming stronger, resulting in lower margins earned on sales by the Polish company. The impact of exchange rate volatility on the financial result is naturally offset (to a significant degree) as about 79% of expenses are incurred in US dollars. The Group does not use hedging of open foreign currency positions.

Risk related to changing structure of tests prescribed by physicians

Medi-Lynx offers different types of tests based on the PocketECG system. The Group has no influence on the choice of the tests actually performed, however in the case of adverse changes, such as lower quantity of the high-payment tests but more tests with lowest reimbursement, the average rate per test will drop, thus making the Group's revenue lower. As the US healthcare market is dynamically developing, changes in physician preferences regarding diagnostic methods could significantly impact the Group's revenue.

Risk related to cancelled or reduced reimbursement rates

The Group distributes its products through public healthcare systems as well as collaborates with a number of private insurers. If one of the key insurers were to decide to discontinue reimbursing a given medical procedure that the Group supports, or to significantly reduce the rates at which the insurer pays back, this change could have a noticeable adverse effect on the Group's operating result. In addition, market player consolidation ongoing on the private insurer market and the resulting bargaining power of insurers that has been growing may also lead to lower rates of reimbursement than before. Another risk factor is the current model based on which Medi-Lynx collaborates with the private insurers on out-of-network basis where no long-term service contracts are signed. The growing negotiating power of insurers, backed by changing legislation, is putting increasing price and legal pressure on those healthcare providers who lack long-term service contracts, further affecting future rates for tests and the ability to attract new clients.

Legal risks

Risk related to newly-marketed product liability

Since the Group's devices monitor strategic vital parameters of their users (cardiovascular performance), any malfunction of such device may result in an action or omission by its user or his/her physician that could be contrary to the user's actual health status, further translating into significant risks to life or health of the user. In addition, the Group's equipment may (in case of design defects or technical failures) be a source of electrical shocks, burns, poisoning or contamination with harmful substances. As a result of the aforementioned circumstances, the Group may be required to pay legal damages to users of the Group's products or to the heirs or other parties, or to settle recourse claims sought by, in particular, physicians, hospitals or distributors against whom such users may directly lodge claims.

The Group has liability insurance in connection with its operations, purchased from a reputable insurance company with product liability coverage and worldwide territorial coverage.

Risks related to material contracts

The Group identifies risks associated with non-performance, improper performance or termination of material contracts, including as a result of their termination by the counterparty. Any misconduct on the part of the Group against a material contract could give rise to the Company’s liability, including legal damages. If terminated, an individual material contract may cause a partial or total loss of revenue planned by the Group from such contract, while not necessarily involving a proportionate reduction in cost planned in connection with such contract.

Risks related to intellectual property, corporate secrets and related violations

The Group's operations and its competitive position depend on ensuring that the unique character of the technical solutions marketed by the Company in the successive product generations products is comprehensively protected. There is a risk of a competitor marketing a device that will use the protected technical solutions of the Company as well as possible violation of its software copyright. Such violations of the Company's intellectual property rights may require legal actions on the part of the Company and payment of related costs. At the same time, the Company has no guarantee whether such actions would turn out successful.

Also, any solutions introduced by the Group may be recognized as violating intellectual property rights of third parties, therefore exposing the Group to the risk of being faced with third party claims and related legal costs.

Risks related to personal data processing

In its operations, the Company processes various types of personal data (including sensitive data) of different categories of individuals. In particular, the Company processes data concerning the health of users of its products. Accordingly, the Company is subject to the data protection laws applicable in jurisdictions where the Company markets its products. Far-reaching regulations in this regard have been adopted in the European Union, including Poland. It leads to the risk of potential violations of data protection regulations and any consequent heavy fines or other sanctions on the Company as may be imposed by supervisory authorities.

Risk of changes related to legal environment, including tax laws

Observed and expected changes in legal regulations, especially those related to business, labor and social security, medical and healthcare system, personal data protection, and commercial law, may evolve towards negative consequences for the Group's business. New legal regulations may cause issues with their interpretation, inconsistent court rulings, unfavorable application by public administration, inconsistencies between rulings of Polish courts and EU tribunals, etc. This risk exists especially in the field of tax law where legal norms and their interpretation have high impact on the Company's financial situation. Planned and possible changes in regulations on medical device marketing and the financing of medical services on the Group's target markets remain a significant source of the risk. Should certain changes be enacted in the current regulations, it could significantly hinder or even limit the scale of the business.

Likewise, the goods and service tax, corporate income tax, personal income tax, social security regulations are subject to frequent changes and therefore there is often insufficient reference available to stable regulations or legal precedence. Also, authorities are entitled to audit ledgers and accounting records of the Group. There is a risk that the Group will be subject to additional financial charges plus interest and various penalties.

VII. Statement of compliance with corporate governance standards

VII. 1. Principles of corporate governance applied by the Parent Company

When the Company's shares were admitted to trading on the regulated market, Medicalgorithmics S.A. has adopted the corporate governance principles set forth in *Best Practices of WSE Listed Companies* ("WSE BP 2016") according to WSE's Supervisory Board Resolution No. 26/1413/2015 of October 13, 2015.

Since July 1, 2021, the Company has been following *Best Practices of WSE Listed Companies 2021* ("WSE BP 2021") according to Resolution No. 13/1834/2021 of March 29, 2021).

1) WSE BP 2016

From January 1, 2021 to June 30, 2021, the Company followed all corporate governance principles set forth in WSE BP 2016, except as described below.

The Company waived (in whole or in part) the following clauses of WSE BP 2016:

- specific principles: I.Z.1.3, I.Z.1.15, II.Z.1, V.Z.6., VI.Z.4.

The following clauses of WSE BP 2016 did not apply to the Company:

- recommendations: I.R.2., IV.R.2, IV.R.3., VI.R.2,

- specific principles: I.Z.1.10, I.Z.1.16, III.Z.2., III.Z.4., IV.Z.2., VI.Z.1., VI.Z.2.

The rationale behind the waiver of the above recommendations and specific principles is clarified further below.

I. <u>Disclosure Policy, Investor Communications</u>

I.R.2. Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report.

This recommendation was not applicable as the Parent did not conduct sponsorship, charity or other similar activities.

I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:

I.Z.1.3. a chart showing the division of duties and responsibilities among members of the management board drawn up according to principle II.Z.1;

The Parent waived this principle, opting instead to divide responsibilities for the Company's various business areas internally among the members of the Management Board.

I.Z.1.10. financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation.

This principle did not apply. The Parent did not decide to publish financial forecasts.

I.Z.1.15. information about the company’s diversity policy applicable to the company’s governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website;

The Parent waived this principle. According to the Parent's Articles of Association, members of the Management Board are appointed by the Supervisory Board, while members of the Supervisory Board are appointed by the General Meeting. Information on qualifications and professional experience of persons appointed to the Management Board and the Supervisory Board is published in relevant current reports and on the Parent's website. At the same time, the Parent informs that a diversity policy has not been developed in any single document in any formalized way.

However, the Parent's Management Board is aware of the importance and necessity of having such diversity ensured with respect to all employees of the Parent because it is convinced that such approach has major impact on the effectiveness of the entire business and the strengthening of the corporate position, both in the eyes of customers and clients, employees as well as other stakeholders, and therefore follows best practices in its daily operations and pays attention to:

a) implementation of the principles of equal treatment in the workplace, i.e. no discrimination (either directly or indirectly) based on gender, age, education, color, religion, irreligion, political opinion, citizenship, nationality, ethnicity, sexual orientation, sexual identity, marital status, family status, lifestyle, health status, disability, as well as the form, scope and basis of employment ora any factors potentially exposing to discriminatory behavior;

b) unbiased substantive criteria and professionalism in the selection of employees for various professional functions in the organization;

c) development of diverse teams that enable its members to have a broader perspective in the problem-solving process, higher creativity, better working atmosphere and, as a result, knowledge transfer and innovation;

d) treatment of employees with due dignity and respect, respecting and appreciation of individual differences of each team member, so that every person employed can (through his or her individual potential) contribute to the development of the Parent as a whole and its individual products;

e) creation of a work environment based on atmosphere of dialogue, openness, tolerance and teamwork;

f) enhancement of the corporate culture based on its mission and values of the Parent, so that it fosters a proactive attitude, self-confidence and conviction that everything depends on ourselves and the relationships we have with each other;

g) reconciliation of professional and private life roles through flexible working hours, work from home options, emergency absences, and taking of leaves for one’s urgent needs.

II. <u>Management Board and Supervisory Board</u>

II.Z.1. The internal division of responsibilities for individual areas of the company’s activity among management board members should be clear and transparent, and a chart describing that division should be available on the company’s website.

The Parent partly waived this principle (publication of the chart), opting instead to divide responsibilities for the Company's various business areas internally among the members of the Management Board.

III. Internal systems and functions

III.Z.2. Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

This principle did not apply. The function of the person responsible for risk management, internal audit and compliance has not been distinguished in the Parent organization. The legitimate reason was the actual size and type of business conducted by the Parent. However, taking into account the current European as well as domestic legislation, the Parent Company is going to consider establishing persons who will be responsible for the above functions.

III.Z.4. The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

This principle did not apply. The function of the person responsible for internal audit has not been distinguished in the Parent organization. The Management Board reports relevant information to the Supervisory Board on an ongoing basis.

IV. General Meeting and shareholder relations

IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

This recommendation was not applicable as the Parent did not issue securities in countries other than Poland.

V. Conflict of interest and related party transactions

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise.

The Parent waived this principle. The Parent has not introduced specific internal rules regarding the resolution of conflicts of interest as it considered sufficient the generally applicable laws.

VI. Remuneration

VI.R.1. The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy

The Parent partly waived this principle. Effective August 12, 2020, the Company follows its Management Board and Supervisory Board Remuneration Policy adopted by Resolution 16/08/2020 by the Annual General Meeting, which regulates the remuneration of individual members of the Management Board and of the Supervisory Board. As regards the remuneration of key managers other than members of the Management Board, at present the Parent has not adopted such remuneration policy in any formally binding document because it considered sufficient the Company's general principles of staff remuneration and generally applicable laws.

VI.Z.1. Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

The principle did not apply in the part related to key managers. The Parent does not currently have a formal incentive program for key managers. However, the Management Board and Supervisory Board Remuneration Policy adopted by the Parent provides for variable remuneration for members of the Management Board, in addition to a fixed component of the remuneration. The variable remuneration mechanism is designed to link the value of the remuneration to the corporate financial performance and the achievement of individual goals of a given member of the Management Board, if any are set by the Supervisory Board.

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

The principle did not apply in the part related to key managers. The Parent does not currently have a formal incentive program for key managers or a program providing for incentive options or other instruments linked to its shares. However, as regards the variable remuneration of the members of the Management Board which can be paid in Company shares or equivalents, the Management Board and Supervisory Board Remuneration Policy adopted by the Parent provides for a three-year settlement period of such remuneration.

VI.Z.4. In this activity report, the company should report on the remuneration policy including at least the following:

1. general information about the corporate remuneration system;
2. information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
3. information about non-financial remuneration components due to each management board member and key manager;
4. significant amendments of the remuneration policy in the last financial year or information about their absence;
5. assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

The Parent partly waived this principle. The 2021 Management Report of the Parent and the Group shows the remuneration of each member of the Company's Management Board. However, effective August 12, 2020, the Company follows its Management Board and Supervisory Board Remuneration Policy adopted by Resolution 16/08/2020 by the Annual General Meeting, which regulates the remuneration (referred to in VI.Z.4) of the Management Board and of the Supervisory Board. Effective 2021, the Supervisory Board annually prepares a remuneration report with a comprehensive compensation overview, including all benefits (regardless of form) received by or due to respective members of the Management Board and the Supervisory Board during the last financial year, in line with the adopted Remuneration Policy. This report is then audited by a statutory auditor and voted on or otherwise discussed at the Annual General Meeting.

2) WSE BP 2021

From July 1, 2021 to 31 December 31, 2021, the Company followed all corporate governance principles set forth in WSE BP 2021, except as described below.

According to the current application, in DPSN 2021 the Company does not apply 17 principles: 1.3.1., 1.3.2., 1.4., 1.4.1., 1.4.2., 2.1., 2.2., 3.3., 3.4., 3.5., 3.6., 3.7., 4.8., 5.6., 5.7., 6.2., 6.3.

1.3. Companies integrate ESG factors in their business strategy, including in particular:
1.3.1. environmental factors, including measures and risks relating to climate change and sustainable development;

Company's commentary: This principle has not been applied. The Management Board is currently reviewing strategic options and, depending on the outcome, the Company's business strategy for 2022-2023 may also be subject to review. The strategy is going to address environmental issues.

1.3.2. social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations.

Company's commentary: This principle has not been applied. The Company complies with all applicable laws in Poland, including the Labor Code. The Company's strategy for 2022-2023 will be reviewed and social / labor issues are going to be incorporated.

1.4. To ensure quality communications with stakeholders, as a part of the business strategy, companies publish on their website information concerning the framework of the strategy, measurable goals, including in particular long-term goals, planned activities and their status, defined by measures, both financial and non-financial.

Information concerning the ESG strategy should among others:

Company's commentary: This principle has not been applied. The Management Board is currently reviewing strategic options and, depending on the outcome, the Company's business strategy for 2022-2023 may also be subject to review. The strategy is going to address ESG issues.

1.4.1. explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks;

Company's commentary: This principle has not been applied. The Management Board is currently reviewing strategic options and, depending on the outcome, the Company's business strategy for 2022-2023 may also be subject to review. The strategy is going to address environmental issues.

1.4.2. present the equal pay index for employees, defined as the difference (%) between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target.

Company's commentary: This principle has not been applied. The Management Board is currently reviewing strategic options and, depending on the outcome, the Company's business strategy for 2022-2023 may also be subject to review. The strategy is going to address social / labor issues.

2.1. Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.

Company's commentary: This principle has not been applied. There is no formalized diversity policy applicable to the Management Board and the Supervisory Board. The Company is going to take steps to prepare such diversity policy.

2.2. Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in Principle 2.1.

Company's commentary: This principle has not been applied. There is no formalized diversity policy applicable to the Management Board and the Supervisory Board. The Company is going to take steps to prepare such diversity policy.

3.3. Companies participating in the WIG20, mWIG40 or sWIG80 index appoint an internal auditor to head the internal audit function in compliance with generally accepted international standards for the professional practice of internal auditing. In other companies which do not appoint an internal auditor who meets such requirements, the audit committee (or the supervisory board if it performs the functions of the audit committee) assesses on an annual basis whether such person should be appointed.

Company's commentary: This principle has not been applied. The Company is listed outside WIG20, mWIG40 and sWIG80 indices. The Audit Committee is taking steps to introduce an internal auditor function. To date, effective internal control and risk management systems have been ensured by the Management Board, key managers, the legal department and the Audit Committee of the Supervisory Board.

3.4. The remuneration of persons responsible for risk and compliance management and of the head of internal audit should depend on the performance of delegated tasks rather than short-term results of the company.

Company's commentary: This principle has not been applied. The Company does not have an internal audit manager or a risk & compliance manager. To date, effective internal control and risk management systems have been ensured by the Management Board, key managers, the legal department and thein charge of conformity of operation, production processes and services with ISO and other standards appliable to medical device manufacturers (including in the US). In addition, the Company established the Audit Committee within the Supervisory Board.

3.5. Persons responsible for risk and compliance management report directly to the president or other member of the management board.

Company's commentary: This principle has not been applied. To date, effective internal control and risk management systems have been ensured by the Management Board, key managers, the legal department and the Audit Committee of the Supervisory Board. The Audit Committee is taking steps to introduce an internal auditor function soon.

3.6. The head of internal audit organizationally reports to the president of the management board and functionally to the chair of the audit committee or the chair of the supervisory board if the supervisory board performs the functions of the audit committee.

Company's commentary: This principle does not apply because the Company does not have an internal audit manager.

3.7. Principles 3.4 to 3.6 apply also to members of the company's group which are material to its activity if they appoint persons to perform such tasks.

Company's commentary: This principle has not been applied. In Medi-Lynx, which is a material subsidiary, there is Compliance Officer but there is no separate internal audit manager function.

4.8. Draft resolutions of the general meeting on matters put on the agenda of the general meeting should be tabled by shareholders no later than three days before the general meeting.

Company's commentary: This principle has not been applied. Draft general meeting resolutions concerning items put on the general meeting agenda are notified according to Article 401(4) and (5) of the Polish Commercial Companies Code.

5.6. If a related party transaction requires the consent of the general meeting, the supervisory board issues an opinion on the rationale of such transaction. In that case, the supervisory board assesses whether to ask a prior opinion of a third party referred to in Principle 5.5.

Company's commentary: This principle has not been applied. Corporate documents do not provide that a general meeting approval is needed to enter into transactions with related parties. According to *Related Party Transactions Procedure* adopted by the Company, such approval belongs to the Supervisory Board.

5.7. If a decision concerning the company's significant transaction with a related party is made by the general meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made, including an opinion of the supervisory board referred to in principle 5.6.

Company's commentary: This principle has not been applied. Corporate documents do not provide that a general meeting approval is needed to enter into transactions with related parties. According to Related Party Transactions Procedure adopted by the Company, such approval belongs to the Supervisory Board.

6.2 If companies' incentive schemes include a stock option program for managers, the implementation of the stock option program should depend on the beneficiaries' achievement, over a period of at least three years, of pre-defined, realistic financial and non-financial targets and sustainable development goals adequate to the company, and the share price or option exercise price for the beneficiaries cannot differ from the value of the shares at the time when such program was approved.

Company's commentary: The principle has been partly applied by the Company. The Company has Management Board and Supervisory Board Remuneration Policy but does not have an incentive program for key managers.

6.3. If in the company one of the incentive programs is a management option program, then the implementation of the option program should be subject to the fulfillment by the eligible persons, within at least 3 years, of pre-determined, realistic and appropriate financial and non-financial and sustainable development goals for the company, and the determined price for the purchase of shares by the eligible persons or the settlement of options may not deviate from the value of shares from the period of enactment of the program.

Company's commentary: This principle has not been applied. The Company does not currently have a manager options scheme.

VII. 2. Summary of Group internal control and risk management systems in relation to separate and consolidated financial statements preparation

The management boards of the Group companies are responsible for the internal control and risk management systems, and their effective and proper functioning within the framework of the financial reporting process. The internal control and risk management system incorporates identification and evaluation of risk areas while defining and ensuring measures that minimize or eliminate them.

The Group's internal control system helps ensure that the Group's activities are carried out, its long-term profitability goals are achieved and its financial reporting is maintained reliable. It includes a series of controlling tasks, responsibility allocations, and identification and evaluation of risks that may adversely affect the achievement of the Group's goals. As regards organizational aspects, the internal control system features functional controls which are implemented by the Management Board, business unit managers and staff, according to their responsibilities.

For the effective functioning of the Parent's internal control and risk management in the financial reporting process, the Parent's Management Board adopted and approved an accounting policy for Medicalgorithmics S.A. which follows the principles of International Financial Reporting Standards, with regular updates based on new regulations.

The circulation of information across the Group companies is under strict control ensuring current, reliable and complete financial reporting that is prepared fairly and in line with accounting regulations and policies. In 2021, the bookkeeping processes of the Group companies and the preparation of 2021 financial statements were commissioned to experienced accounting firms that apply their own report preparation controls.

Ledgers and records are kept in IT systems that provide a clear division of competences, entry consistency and ongoing ledger cross-checks. Data access with different sectional views sand layouts is possible thanks to an extensive reporting system. The IT systems are continuously updated to match the changing accounting principles or other legal standards, thanks to their high functional flexibility.

The systems are password protected against unauthorized access and feature role-based access restrictions. Access control is ensured at every stage of the financial report preparation, from the data input stage, through data processing, up to generation of the output information.

The process of preparing individual financial statements of respective companies of the Group is closely coordinated with the Parent's financial unit which reports directly to its Management Board. Both in the subsidiaries as well as the entities in charge of the bookkeeping for the Group subsidiaries, there are policies in place that regulate the control system and the identification and assessment of risks arising from the Group's operations, including entering of account records only based on properly prepared and approved evidence, control of such evidence for its formal conformity, accounting and content, etc. The circulation of information across Group companies and the entities in charge of bookkeeping is also subject to control.

Substantive control over the consolidated accounts preparation process is carried out by the Parent's Management Board which approves, prior to publication, quarterly, semi-annual and annual financial statements. Annual and semi-annual reports are subject to audit/review by an independent statutory auditor who is selected by the Supervisory Board of Medicalgorithmics S.A.

VII. 3. Shareholders of the Parent Company and their rights

As of the date of this report, the major shareholding stakes in the Parent were as presented in Section I.5.

All Parent shares are ordinary bearer shares with no special control rights attached to them. Medicalgorithmics S.A. Articles of Association do not impose any restrictions on voting rights, for example their exercise is not limited only to holders of any certain series or number of votes or in certain time, and they do not contain any provisions that would separate equity rights from the holder of underlying securities. As of the date of this report, there are also no restrictions on transfer of the ownership rights in the Parent shares.

VII. 4. General Meeting

The General Meeting of Medicalgorithmics S.A. is the top corporate body of the Parent. It convenes as either ordinary annual meeting or an extraordinary one, according to generally applicable regulations and Medicalgorithmics S.A. Articles of Association (available on the Parent's website).

The competences of the General Meeting include, but are not limited to:

- examination and approval of the Parent's management reports and financial statements for the past financial year;
- selection and dismissal of the Chairperson, the Vice Chairperson and members of the Supervisory Board;
- discharge of duties for members of the Management Board and of the Supervisory Board;
- increases and decreases of the share capital;
- resolutions on profit distribution or covering of loss;
- creation and liquidation of capital reserves;
- remuneration principles applicable to members of the Supervisory Board;
- amendments to the Parent's Articles of Association;
- examination of issues requested by the Supervisory Board, the Management Board or shareholders;
- resolutions on dissolution or liquidation of the Parent, or its merger;
- selection of liquidators;
- issue of convertible bonds and bonds with priority rights;
- issue of subscription warrants;
- adoption of the Supervisory Board Regulations;
- determination of the dividend date (creation of the list of shareholders entitled to dividends for a financial year) and the related payment date.

Shareholders of the Parent may exercise their rights in line with generally applicable laws and Medicalgorithmics S.A. Articles of Association.

Amendment of the Articles of Association requires a resolution of the General Meeting, to be adopted by a three-fourths majority, followed by its effective registration in the Polish National Court Register. Amendments of Medicalgorithmics S.A. Articles of Association are decided by the General Meeting in compliance with applicable laws as well as based on the procedure set forth in Commercial Companies Code.

VII. 5. Management Board

The Management Board manages the Parent and represents it towards third parties. As of the publication of this report, two members of the Management Board acting jointly or one member acting together with a company agent are authorized to represent the Parent. In the reporting period, when the Management Board had more than one member, statements could be issued on behalf of the Parent by either two members of the Management Board or one member together with a company agent. In addition, the Management Board may authorize company agents by issuing a power of attorney, upon prior the approval of the Supervisory Board. No such authorized agents were appointed.

This corporate body operates based on generally applicable laws and Medicalgorithmics S.A. Articles of Association. Its competence includes any matters related to the ongoing handling of the Parent's activities, unless reserved by virtue of law or in the Articles of Association as the competence of the General Meeting or of the Supervisory Board. The Management Board's authority to decide to issue or redeem of shares is limited by the Articles of Association. According to Article 14.5 of Medicalgorithmics S.A. Articles of Association, a resolution of the General Meeting is required in order to increase the share capital and issue shares. Subject to peremptory legal regulations, the Management Board decides on all matters related to share capital increases within the limits of the authorized capital.

In the reporting period and as of the publication of this report, the Management Board can consist of 2 to 5 members, each appointed for a three-year term of office. The composition of the Management Board is decided by the Supervisory Board which appoints and dismisses respective members.

In 2021, the composition of the Management Board changed as follows:

- from January 1 to June 15, 2021
    - Marek Dziubinski - President of Management Board
    - Maksymilian Sztandera - Member of Board, Chief Financial Officer
    - Peter Pellerito - Member of Management Board

- from June 16 to July 29, 2021
    - Marcin Gołębicki - President of Management Board
    - Maksymilian Sztandera - Member of Board, Chief Financial Officer
    - Peter Pellerito - Member of Management Board

- from July 30 to August 4, 2021
    - Maksymilian Sztandera - Member of Board, Chief Financial Officer
    - Peter Pellerito - Member of Management Board

- From August 5 to August 23, 2021
    - Maksymilian Sztandera - Member of Board, Chief Financial Officer
    - Peter Pellerito - Member of Management Board
    - Jaroslaw Jerzakowski - Member of Management Board

- from August 23 to December 31, 2021
    - Maciej Gamrot - Member of Management Board, Chief Financial Officer
    - Peter Pellerito - Member of Management Board
    - Jaroslaw Jerzakowski - Member of Management Board

- As of the publication of this report, the Management Board consists of the following persons:
    - Maciej Gamrot - Member of Management Board, Chief Financial Officer
    - Jaroslaw Jerzakowski - Member of Management Board.

VII. 6. Supervisory Board

The Supervisory Board of Medicalgorithmics S.A. constantly supervises the Parent's activities. This corporate body operates based on generally applicable laws and Medicalgorithmics S.A. Articles of Association. According to the Articles of Association, the Supervisory Board consists of 5 to 9 members, appointed and dismissed by the General Meeting in line with the procedure set forth in the Articles of Association. Members of the Supervisory Board are appointed for a collective term of three years.

During the reporting period, the composition of the Supervisory Board changed as follows:

- from January 1 to June 26, 2021
    - Michał Wnorowski - Vice Chairman of Supervisory Board
    - Mariusz Matuszewski - Member of Supervisory Board
    - Artur Małek - Member of Supervisory Board
    - Marek Tatar - Member of Supervisory Board
    - Krzysztof Urbanowicz - Member of Supervisory Board
    - Marcin Gołębicki - Member of Supervisory Board

- from June 27 to October 25, 2021
    - Marek Dziubiński - Chairman of Supervisory Board
    - Michał Wnorowski - Vice Chairman of Supervisory Board
    - Anna Sobocka - Member of Supervisory Board
    - Stanisław Borkowski - Member of Supervisory Board
    - Martin Jasinski - Member of Supervisory Board

- Brandon von Tobel - Member of Supervisory Board
- Marek Tatar - Member of Supervisory Board

- from August 26 to December 31, 2021

  - Marek Dziubiński - Chairman of Supervisory Board
  - Michał Wnorowski - Vice Chairman of Supervisory Board
  - Anna Sobocka - Member of Supervisory Board
  - Stanisław Borkowski - Member of Supervisory Board
  - Martin Jasinski - Member of Supervisory Board
  - Andrew Gładysz - Member of Supervisory Board
  - Grzegorz Janas - Member of Supervisory Board
  - Brandon von Tobel - Member of Supervisory Board
  - Werner Engelhardt - Member of Supervisory Board

- As of the publication of this report, the Supervisory Board consists of the following persons:

  - Marek Dziubiński - Chairman of Supervisory Board
  - Michał Wnorowski - Vice Chairman of Supervisory Board
  - Anna Sobocka - Member of Supervisory Board
  - Stanisław Borkowski - Member of Supervisory Board
  - Martin Jasinski - Member of Supervisory Board
  - Andrew Gładysz - Member of Supervisory Board
  - Grzegorz Janas - Member of Supervisory Board

Board meetings convened

In 2021, the Supervisory Board held 16 meetings and, in addition, it passed resolutions thirteen times using remote procedures and means of distance communication.

VII. 7. Audit Committee

According to the Parent's Articles of Association, members of the Audit Committee, including the Chairperson, are appointed by the Supervisory Board from among its own members and for the term of office of the Supervisory Board. In the reporting period, the Audit Committee consisted of 3 members, including the Chairperson, and they work jointly. As of the date of publication of this report, the Audit Committee consists of at least three members, including the Chairperson.

Where generally applicable regulations allow it, the tasks of the Audit Committee are carried out by the Supervisory Board. The Audit Committee is in charge for overseeing the financial reporting of the Parent.

Members of the Audit Committee

From January 1 to June 27, 2021, the Audit Committee had the following members:

- Artur Małek - Chairman of Audit Committee
- Michal Wnorowski - Member of Audit Committee
- Krzysztof Urbanowicz - Member of Audit Committee

From June 28 to July 27, 2021, the Audit Committee had the following members:

- Michal Wnorowski - Chairman of Audit Committee
- Anna Sobocka - Member of Audit Committee
- Marek Tatar - Member of Audit Committee
- Brandon von Tobel - Member of Audit Committee

From July 28 to October 25, 2021, the Audit Committee had the following members:

- Michal Wnorowski - Chairman of Audit Committee
- Anna Sobocka - Member of Audit Committee
- Marek Tatar - Member of Audit Committee

From October 26 to December 31, 2021, the Audit Committee had the following members:

- Michal Wnorowski - Chairman of Audit Committee
- Anna Sobocka - Member of Audit Committee
- Andrzej Gładysz - Member of Audit Committee

As of the publication of this report, the composition of the Audit Committee remains unchanged.

All members of the Audit Committee satisfy the criteria of independence and other requirements as set forth in Article 129 of *Auditor, Audit Firm and Public Supervision Act* of May 11, 2017 (Polish Official Journal: Dz.U. 2020.1415).

All current members of the Audit Committee have the knowledge and skills in the area of accounting or report auditing.

Michał Wnorowski and Andrzej Gładysz have expertise and skills in the operating sector of the Parent. Both have many years of professional experience in managing advanced technology companies.

Individual bios are available in Section I.9 of this report.

Assessment of independence of Parent's financial statements auditor

In 2021, the Parent was serviced by audit firm Grant Thornton Polska Spółka z o.o. sp.k. based in Poznań (Poland) which reviewed and audited the Company's financial statements as well as the consolidated financial statements of Medicalgorithmics Group for the first half of 2021 and entire year 2021.

In line with *Auditor, Audit Firm and Public Supervision Act* of May 11, 2017, the Audit Committee adopted the following documents in its Resolution No. 1 of October 20, 2017:

- Policy on additional non-audit services provided to the Parent and the Group by the financial statements auditors, their associated entities or members of their network;
- Policy and procedure for selection of auditor/reviewer of the Parent's and Group's financial statements.

Auditor selection policy – main principles

- The audit firm is selected by the Company's Supervisory Board after reviewing the recommendation formulated by the Audit Committee;
- If in a given case the selection of the audit firm does not result form renewal of the current audit contract, the Audit Committee will prepare and submit to the Supervisory Board a recommendation of at least two audit firms, selected based on a bidding procedure arranged by the Company, including a reasoned statement of preference for one of them;
- The audit firm is selected well in advance so that the audit contract can be signed or renewed in time for the auditor to participate in any material asset counting procedures;
- When selecting the auditor, the Audit Committee and the Supervisory Board pay special attention to the need for independence of such audit firm and the person auditing, and will also take into account its experience in regulatory audits of financial statements of entities which are public interest organizations, including those listed on the Warsaw Stock Exchange, as well as its knowledge of the IT or high-tech industry;
- The selection of the audit firm takes into consideration the rules of necessary change of audit firms and key auditors as stemming from generally applicable laws;
- The initial audit contract with an audit firm is concluded for at least two years, with option to renew it for successive periods of two years or more, taking into consideration the rules of necessary change of audit firms and key auditors.

Auditor's non-audit services policy – main principles

- Non-audit services which are provided by an audit firm require prior approval of the Audit Committee, in the form of a resolution to be adopted at the request of the Board of Directors;
- These services, for which the auditor is licensed, are carried out in line with generally applicable regulations as well as the criteria of independence applicable to such services which are set forth in professional codes and best practice standards of such services;
- The auditor may provide the licensed services to the Company (or its controlled entities) only insofar as it is justified by the interest of the Parent (or its controlled entities), and in particular when based on the knowledge of the Company and its environment the auditor is able to offer the Company high-quality licensed services on competitive terms.

Auditor selection recommendation

By Resolution No. 6/2021 of 17 May 2021, the Audit Committee recommended selection of audit firm Grant Thornton Polska Spółka z o.o. sp.k. based in Poznań (Poland) to review and audit the Company's financial statements as well as the consolidated financial statements of Medicalgorithmics Group for the first half of 2021 and entire year 2021, and the first half of 2022 and entire year 2022. Such recommendation complied with the applicable conditions. It was formulated consequently to an auditor selection procedure which the Company arranged to ensure the regulatory audit/review of the financial statements of the Parent and the Group.

The Audit Committee by-laws are regulated in the Audit Committee Regulations which were adopted in Resolution No. 1 of the Supervisory Board on October 20, 2017.

Committee meetings convened

In 2021, the Audit Committee held 6 meetings and, in addition, it passed five resolutions using remote procedures and means of distance communication.

VIII. Basic information about the Parent Company

Medicalgorithmics S.A. is a joint-stock company registered in Poland, established by Notarial Deed No. A 1327/2005 of June 23, 2005. In 2011, its shares debuted on NewConnect, an alternative trading system of the Warsaw Stock Exchange. Since February 3, 2014, Medicalgorithmics S.A. has been listed on WSE's primary market.

Headquarters:	Al. Jerozolimskie 81, 02-001 Warsaw, Poland
E-mail address:	finanse@medicalgorithmics.com
Corporate website: Investor Relations page:	www.medicalgorithmics.com www.medicalgorithmics.pl
Media contact:	Piotr Owdziej (CC Group) tel.: +48 697 612 913 Piotr.Owdziej@ccgroup.pl

IX. Information about the operations of the Issuer

Public register data

District Court in Warsaw, 12th Commercial Division of National Court Register

Company number (KRS): 0000372848; Polish tax number (NIP): 5213361457 Statistical number (REGON): 140186973

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Share capital

The amount of share capital registered with the National Court Register is, as of the date of this annual report: PLN 497,638.50, divided into 4,976,385 ordinary bearer shares, par value PLN 0.10 each, including:

- 1,747,200 series A ordinary bearer shares
- 508,200 series B ordinary bearer shares
- 236,926 series C ordinary bearer shares
- 929,600 series D ordinary bearer shares
- 33,600 series E ordinary bearer shares
- 151,000 series F ordinary bearer shares
- 721,303 series G ordinary bearer shares
- 648,556 series H ordinary bearer shares

Maciej Gamrot Member of Management Board, Chief Financial Officer	Jarosław Jerzakowski Member of Management Board

Warsaw, April 28, 2022

X. Other statements and Information from Management Board

To the best knowledge of the Management Board of the Parent, the 2021 annual consolidated financial statements of Medicalgorithmics Group as well as the 2021 separate financial statements of Medicalgorithmics S.A. (and 2020 comparative data) have been prepared in compliance with the applicable accounting principles, are a true, fair and clear presentation of the assets and the financial position of Medicalgorithmics Group and Medicalgorithmics S.A., and the financial result of Medicalgorithmics Group and Medicalgorithmics S.A., while the 2021 management report of Medicalgorithmics Group and of Medicalgorithmics S.A. gives a true picture of the development, achievements and the situation of Medicalgorithmics Group and Medicalgorithmics S.A., including a summary of key threats and risks.

On behalf of the Management Board of Medicalgorithmics S.A.:

Maciej Gamrot Member of Management Board, Chief Financial Officer	Jarosław Jerzakowski Member of Management Board

Warsaw, April 28, 2022

Based on the statement of the Supervisory Board of Medicalgorithmics S.A. concerning the selection of the auditor of the 2021 financial statements of Medicalgorithmics S.A. and the 2021 consolidated financial statements of Medicalgorithmics Group, which has been made in compliance with regulations including those applicable to the auditor selection and related procedures, the Management Board hereby informs that:

- the audit firm and members of the audit team met the requirements allowing preparation of an impartial and independent report from the audit of the 2021 financial statements of Medicalgorithmics S.A. as well as an impartial and independent report from the audit of the 2021 consolidated financial statements of Medicalgorithmics Group, in accordance with applicable regulations, professional standards and best ethical practices,

- Medicalgorithmics S.A. follows applicable regulations related to necessary change of audit firms and key auditors as well as mandatory grace periods,

- Medicalgorithmics S.A. has an audit firm selection policy as well as a policy concerning additional non-audit services provided to Medicalgorithmics S.A. by audit firms, their associated entities or members of their network (including auditor services legally permitted on certain conditions).

On behalf of the Management Board of Medicalgorithmics S.A.:

Maciej Gamrot Member of Management Board, Chief Financial Officer	Jarosław Jerzakowski Member of Management Board

Warsaw, April 28,2022

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Position of the Management Board and opinion of the Supervisory Board concerning the Auditor's refusal to formulate an opinion on the financial statements of the Company and the consolidated financial statements of the Group for the financial year ended December 31, 2021.

According to Article 70(1)(13) and 71(1)(11) of the Minister of Finance Regulation of March 29, 2018 *on current and periodic reports of issuers of securities and recognition of equivalent information required under laws of non-member countries* (Polish Official Journal: Dz.U. 2018.757), the Management Board hereby expresses its position regarding the refusal by Grant Thornton Polska spółka z ograniczoną odpowiedzialnością sp.k. based in Poznań, Poland ("Auditor") to express an opinion on the financial statements of MEDICALGORITHMICS Spółka Akcyjna based in Warsaw ("Company") for the financial year ended December 31, 2021 and on the consolidated financial statements of the Company's capital group ("Group") for the financial year ended December 31, 2021 (jointly "Financial Statements").

The audit of the Financial Statements was conducted by the Auditor who was selected by the Supervisory Board in order to audit the Company's separate financial statements and the Group's consolidated financial statements for the financial year ended December 31, 2021.

In the audit reports concerning the Financial Statements, the Auditor has refused to express an opinion on the Financial Statements despite having obtained sufficient and appropriate auditing evidence on each of the uncertainties which it described in the section explaining the basis for such refusal, as the Auditor considered it impossible to formulate an opinion on the Financial Statements because of the potential interaction of such uncertainties and their possible cumulative impact on the Financial Statements. Furthermore, the Auditor stated in the Key Audit Matters section that, except for the issues described in the basis for the refusal, there have been no other key matters in the audit outstanding, including none of the most significant risks of material misstatement that would require presentation in the audit report.

Quantitative and qualitative impact of the cause of the refusal on the annual financial statements, including results and other financial data, and an assessment of its materiality.

The essence of the cause behind the refusal is, as the Auditor stated, "despite having obtained sufficient and appropriate auditing evidence (...) it is impossible to formulate an opinion on the enclosed financial statements because of the potential interaction of such uncertainties and their possible cumulative impact on the annual financial statements."

In view of such essential cause of the refusal, namely that it is impossible to assess the possible cumulative impact of the described uncertainties on the financial statements, the Management Board is not able to assess their quantitative and qualitative impact on the annual financial statements, including on results and other financial data.

The Management Board points out that should the most significant of the uncertainties resolve with a positive outcome, especially through certainty as to the procurement of financing and the achievement of the business objectives at or above the assumed level, the Financial Statements would be prepared under the going concern assumption without the uncertainty, with the asset impairment tests most likely indicating significantly lower adjustments written down because their level depends on, among other factors, the degree to which the business objectives have been achieved.

Given the multiple scenarios how the identified uncertainties may resolve, including certain provisional options, the Management Board is of such opinion that it is not possible to assess quantitatively or qualitatively the impact from the cause of the refusal to formulate an opinion.

The Management Board describes below certain issues and circumstances, as disclosed in the Financial Statements, which affect these uncertainties and states the adjustments written down based on results of the impairment tests carried out with the assumed uncertainty. In addition, the Management Board outlines certain actions either taken or planned in order to address the situation.

The cause of the refusal has the highest possible degree of materiality because it directly relates to the Company's and Medi-Lynx's ability to continue as a going concern, with the impact of adjustments to be very significant in case one of the extreme scenarios should occurs, just as significant as are the adjustments written down based on the impairment tests which were carried out with the assumed uncertainty.

Discussion of the going concern uncertainty regarding the Company and the Group as well as the partly-related asset impairment testing methodology and results:

The Management Board stated in Note 2.1 to the Company's separate financial statements and Note 4.1 to the Group's consolidated financial statements that these statements have been prepared on a going concern basis of the Company and the Group, taking into account the significant uncertainties as to their ability to continue on a going concern basis. In these notes, the Management Board described those uncertainties and the actions taken by it as well as other issues aimed at ensuring the continuation of Company's and the Group's operations, and described the impact of those uncertainties on the valuation of assets and liabilities reported in the Financial Statements.

The uncertainty is related to the ability to secure financing, which is a key issue and area of uncertainty in the going concern ability of the Company and of the Group. Based on the current assumptions, the Group's cash demand fits in the range of USD 4 - 6 million (see Current Report 21/2022). Out of prudence, the Management Board is pursuing more finance. As announced by the Issuer in Current Report 21/2022 of April 20, 2022, based on the conservative assumptions of the Management Board, the current cash position indicates the need to procure additional financing over an approximate horizon of two months, either in the form of debt finance or via sale of certain assets.

There are also other issues and risks, as described further below, that have a material impact on the Company's and the Group's ability to continue as a going concern. However, it is the procurement of the financing on at least the assumed level or the sale of assets that creates the uncertainty on which depends the continuation of its business by the Company and the Group.

Among the other issues and risks of material impact on the Company's and the Group's ability to continue as a going concern, there are:

1. **The ability to achieve the assumed growth in revenues in the U.S., while maintaining the assumed level of the Group's operating expenses, including costs of equipment manufacturing and technology / sales development.**
2. **The ability (if needed) to enter into agreements changing the terms of repayment of debts, including a credit facility from Bank Millennium S.A., liabilities due to Medi-Lynx Monitoring, Inc. (controlled by Mr A. Bogdan who sold shares in Medi-Lynx Cardiac Monitoring, LLC to the Group).**
3. **Public aid for Medi-Lynx which may be eligible for approximately USD 4.5 million in non-refundable funds.**

However, the key issue and uncertainty in the Group's ability to continue as a going concern is the procurement of the financing.

As long as the financing is obtained (either debt finance or equity investment currently assumed at USD 4 - $6 million), the Company and the Group will be able to continue, subject to other financial assumptions, for at least 12 months after the balance sheet date.

However, should the financing procured be lower than assumed, supplemental financing will be needed or certain assets of the Group urgently sold, including:

1. **Sale of the entire Medi-Lynx LLC (ML) business;**
2. **Sale of all or some MDG assets, such as intellectual property rights.**

In order to obtain the debt financing or sell the assets, as part of the review of its strategic options, the Management Board (assisted by the Supervisory Board) is carrying out the following activities:

1. **The Management Board is in intensive discussions with advisors regarding bridge financing and the potential sale of the Group's assets. Agreements have been signed with two US advisors to find finance, with one of them also seeking an investor or sale of the Group's assets.**
2. **As at the date of the Financial Statements, the Group does not have detailed terms and conditions of a potential finance / asset sale transaction. The Group is currently holding talks with several parties, however these are not negotiations of the actual terms of such transaction. The Group has not received formal proposals yet. The Group has made business presentations and the analysis of potential transaction scenarios and transaction objects is pending. No binding or non-binding transaction documents have been signed. However, in order to enable the future transaction, in the event it will require a tight timetable and be justified in the context of the Company's plans and strategies related to its and the Group's current operational and financial position, the Management Board summoned the Extraordinary General Meeting for May 10, 2022. The agenda for the meeting included resolutions enabling the future transactions to proceed.**

As mentioned above, the Group's ability to continue as a going concern is affected by the risk related to the achievement of the expected growth in revenues in the U.S., while maintaining the assumed level of the Group's operating expenses, including costs of equipment manufacturing and technology / sales development. When creating its financial plans and estimating its financing needs, the Group assumed various scenarios of, for example, sales growth and level of costs, therefore determining the necessary minimum finance in the range of approximately USD 4-6 million. To achieve its Medi-Lynx sales targets, the Group assumed a major (up to two times) increase of the sales team. Currently, facing the risk of insufficient financing, the Group has significantly limited such plans and it could have a negative impact on its ability to achieve the assumed sales targets. If unable to achieve the sales level assumed in its forecasts or should costs rise, the need for finance may be greater than originally assumed.

Another key issue for the Group's continuity of operations is its ability to timely repay the credit facility from Bank Millennium S.A., also taking into account the risk of required early repayment before the contracted maturity date. As of the balance sheet date, the available credit line was PLN 9.4 million (April 30, 2022: PLN 6.0 million), including consumed PLN 1.4 million as of December 31, 2021 and PLN 4.7 million as of April 25, 2022. According to the credit facility agreement, the limit will be gradually reduced at a rate of PLN 860 thousand per month until the end of November 2022. The risk of early repayment stems from the agreement itself which allows the bank to terminate the agreement in the event of a material deterioration of the borrower's position or a loss of its creditworthiness, which the bank could recognize in the case of the Company's current situation. Furthermore, in the event of any additional debt finance taken out by the Company the credit facility agreement requires that the bank be provided with the same security as the one given to the party providing such debt finance, and in certain transactions which are currently being considered this could be impossible. Due to the uncertainty surrounding the timeframe and amounts of the future financing, the Group is negotiating with the bank options and conditions for deferred repayment without termination of the credit facility agreement and premature triggering of the due date.

Discussions are being held with Mr. Andrew Bogdan regarding an extension of payment due dates in order to avoid official enforcement proceedings against Medi-Lynx assets should amounts due to Medi-Lynx Monitoring, Inc. (an entity controlled by Mr. Bogdan who disposed of his interest in Medi-Lynx Cardiac Monitoring, LLC to the Issuer's Group) for the acquisition of Medi-Lynx be late.

The outcome of the discussions with the bank and with Mr. Andrew Bogdan depends on, among other things, perspectives towards the procurement of the new financing or the closure of the asset sale transaction that would feed funds needed to repay the bank and Medi-Lynx Monitoring, Inc.

In addition, in April 2022, Medi-Lynx applied for a partial tax refund of personal taxes paid under the Employee Retention Credit (ERC) program to U.S. Internal Revenue Service (IRS). According to AUTOMATIC DATA PROCESSING, INC. (ADP provides the payroll process support to Medi-Lynx), based on the new regulations of the Consolidated Appropriations Act of 2021 and the American Rescue Plan Act, Medi-Lynx is eligible for such public aid with respect to quarters 1-3 of 2021. The Group has not verified this information through other third-party advisors other than ADP.

ADP filed tax refund applications on behalf of Medi-Lynx for a total of USD 4.5 million.

Also, ADP informed Medi-Lynx that its eligibility for the tax refund and the actual amount are subject to IRS approval, and until then neither the refund nor its final amount is certain (ADP is aware of some refund applications having been rejected). Confirmation of the tax refund applications is expected within approximately two months of their submission. Additionally, according to ADP, a refund, if any, will be paid only within 9 months following the date of submission because of the high turnout of public aid applications pending with IRS. There is no formal procedure to make IRS expedite the processing of the tax refund application or the follow-up payment.

In summary, the Management Board informs that:

1. **No decision has been made to liquidate the Company or declare its bankruptcy as the prerequisites justifying such decision have not been met. Therefore, it cannot be assumed as certain that the Group will fail to be a going concern.**
2. **However, there is significant uncertainty whether funds can be secured from:**
   a. **Future debt financing,**
   b. **Sale of Medi-Lynx assets;**
   c. **Sale of Medicalgorithmics S.A. assets;**
   d. **Public aid for Medi-Lynx.**

Accordingly, there are no grounds that would justify preparation of December 31, 2021 financial statements without the going concern assumption, however there are grounds allowing preparation of the financial statements based on a assumption of a significant uncertainty as to the ability to continue as a going concern.

Based on such assumptions, the Group's assets were tested for impairment as further described in Note 4.7 to the consolidated financial statements of the Group and Note 2.7 to the Company's statements, in order to measure the Company's and the Group's assets at net selling prices.

The significant uncertainty as to its ability to continue as a going concern is the basis for the impairment testing of assets and modification of the valuation methods applied to the tested assets.

If there is significant uncertainty as to the ability to continue as a going concern, assets need to be measured at amounts that do not exceed their recoverable amount, i.e. the fair value less costs to sell.

The Supervisory Board monitors, oversees and supports the Management Board's efforts to mitigate the risks and expresses a positive opinion regarding the Management Board's actions taken with the aim of obtaining the financing, including its efforts described in the hereby position.

The impact of the asset impairment tests performed as of December 31, 2021 on respective items in the Group's consolidated financial statements for 2021 is presented below:

PLN '000	Carrying amount (before adjustment)	Increase of impairment loss	Carrying amount recoverable / P&L item
Intangible assets	206,091	(155,520)	50,571
Non-current assets	235,938	(155,520)	80,418
Revenue from sales	120,563	0	120,563
Other operating expenses	7,245	(155,520)	162,765
EBITDA	6,356	(155,520)	(149,165)
Net profit	(25,118)	(155,520)	(180,638)

The impact of the impairment tests of non-current assets (conducted on December 31, 2021) and of the estimated credit losses on respective items in the Company's financial statements for 2021 is presented below:

PLN '000	Carrying amount (before adjustment)	Increase of impairment loss	Carrying amount recoverable / P&L item
Intangible assets	25,444	(21,737)	3,707
Financial assets (IFRS 9)	75,980	(75,883)	97
Shares in subsidiaries (IAS 36)	80,549	(79,100)	1,450
Non-current assets	184,990	(176,720)	8,270
Trade and other receivables	57,458	(3,500)	53,958
Current assets	65,302	(3,500)	61,802
Revenue from sales	46,192	0	46,192
Other operating expenses	(321)	(25,238)	(25,558)
Financial costs	(15,917)	(154,983)	(170,900)
EBITDA	16,069	(25,238)	(9,169)
Net profit	7,851	(180,220)	(172,369)

Sincerely,

Maciej Gamrot

Member of Management Board and Chief Financial Officer

Jarosław Jerzakowski
Member of Management Board

Warsaw, April 28, 2022

MEDICALGORITHMICS S.A. SUPERVISORY BOARD

ASSESSMENT

of

2021 separate financial statements of MEDICALGORITHMICS S.A., 2021 consolidated financial statements of MEDICALGORITHMICS S.A. Group, and 2021 management report on Company and Group operations, on their conformity with books, documentation and the actual state of affairs

The Supervisory Board of **MEDICALGORITHMICS S.A., registered office in Warsaw** (Al. Jerozolimskie 81), entered in the Commercial Register of the National Court Register, District Court for Warsaw, 12th Commercial Division, under entity number (KRS): 0000372848, Polish tax number (NIP): 5213361457, and statistical number (REGON): 140186973 ("**Company**"), according to Article 70(1)(14) and 71(1)(12) of the Minister of Finance Regulation of March 29, 2018 *on current and periodic reports of issuers of securities and recognition of equivalent information required under laws of non-member countries* (Polish Official Journal: Dz.U. 2018.757, "**Regulation**"), and Article 382(3) of the Commercial Companies Code of September 15, 2000 (Polish Official Journal: Dz.U. 202.1526), having examined the following and according to its best knowledge, hereby expresses its positive opinion on:

1. the financial statements of the Company for the financial year ended December 31, 2021;
2. the financial statements of Medicalgorithmics S.A. Group. ("**Group**") for the financial year ended December 31, 2021;
3. the management report on Company and Group operations in 2021;

in terms of their conformity with books, documentation and the actual state of affairs.

The Supervisory Board assessed the above accounts based on:

1. their contents as submitted by the Management Board of the Company;
2. the independent auditor's report on the audited financial statements of the Company and the Group for the financial year ended December 31, 2021;

3. a supplementary report for the Audit Committee prepared based on Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of April 16, 2014 on detailed requirements for statutory audits of public-interest entities, repealing commission decision 2005/909/EC (OJ EU.L.2014.158.77), as well as the regulations of the Statutory Auditors, Audit Firms and Public Supervision Act of May 11, 2017 (Polish Official Journal: Dz.U. 2020. 1415);
4. meetings with audit firm representatives, including the key auditor;
5. letters addressed by the auditor to the Audit Committee in response to its inquiries directed to the auditor.

The audit of the Company's financial statements for 2021 and the Group's consolidated financial statements for 2021 (jointly the "**Financial Statements**") was carried out by audit firm **Grant Thornton Polska Sp. z o.o. sp.k,** with registered office in Poznań, Poland ("**Auditor**"), which was selected by the Supervisory Board to audit the Company's separate financial statements and the Group's consolidated financial statements for the financial year ended December 31, 2021.

In the audit reports on the Financial Statements, the Auditor has refused to express an opinion on the Financial Statements despite having obtained sufficient and appropriate auditing evidence on each of the uncertainties which it described in the section explaining the basis for such refusal, as the Auditor considered it impossible to formulate an opinion on the Financial Statements because of the potential interaction of such uncertainties and their possible cumulative impact on the Financial Statements. Furthermore, the Auditor stated in the *Key Audit Matters* section that, except for the issues described in the basis for the refusal, there have been no other key matters in the audit outstanding, including none of the most significant risks of material misstatement that would require presentation in the audit report.

With respect to the management report on Company and Group operations in the financial year ended December 31, 2021, the auditor concluded that the management report was prepared in line with the applicable legal regulations and is consistent with the information contained in the Financial Statements. In addition, the Auditor stated that in its best knowledge of the Company, the Group and their environment gained during the audit of the Financial Statements, the Auditor has not found any material misstatements in the management report, except for the possible effects of the matters described in the *Basis for Refusal* section.

As regards the corporate governance statement, the Auditor expressed such opinion that the Company included the information specified in Article 70(6)(5) of the Regulation in such corporate governance statement as well as that the information specified in Article 70(6)(5)(c)-(f), (h) and (i) of the Regulation and contained in the corporate governance statement is consistent with the applicable legal regulations and the information found in the Financial Statements.

The Management Board described in Note 2.1 to the Company's separate financial statements and Note 4.1 to the Group's consolidated financial statements that these statements were prepared on a going concern basis of the Company and the Group, taking into account the significant uncertainties as to their ability to continue on a going concern basis. In these notes, the Management Board described those uncertainties and the actions taken by it as well as other issues aimed at ensuring the continuation of Company's and the Group's operations, and described the impact of those uncertainties on the valuation of assets and liabilities reported in the Financial Statements.

Based on the contents of the Financial Statements, the management report on Company and Group operations, and the independent auditor's reports on the audited Financial Statements, the Supervisory Board of the Company hereby concludes to the best of its knowledge that:

1. the Company's financial statements for the year ended December 31, 2021 were prepared within the statutory time limit as well as in conformity with legal regulations, the International Financial Reporting Standards approved by the European Union, and the adopted accounting principles;

2. the Group's financial statements for the year ended December 31, 2021 were prepared within the statutory time limit as well as in conformity with legal regulations, the International Financial Reporting Standards approved by the European Union, and the adopted accounting principles;
3. the management report on Company and Group operations in 2021 was prepared within the statutory time limit as well as in conformity with legal regulations and the adopted accounting principles.

Therefore, the Supervisory Board hereby assesses in its best knowledge that the 2021 financial statements of the Company and of the Group as well as the management report on Company and Group operations in 2021 conform with books, documentation and the actual state of affairs.

Supervisory Board of Medicalgorithmics S.A.:

Marek Dziubiński	- Chairperson of Supervisory Board
Michał Wnorowski	- Vice Chairperson of Supervisory Board
Anna Sobocka	- Member of Supervisory Board
Stanisław Borkowski	- Member of Supervisory Board
Martin Jasinski	- Member of Supervisory Board
Andrzej Gładysz	- Member of Supervisory Board
Grzegorz Janas	- Member of Supervisory Board

Załącznik nr 1 do uchwały nr 18/2022 Rady Nadzorczej Medicalgorithmics S.A. z dnia 28 kwietnia 2022 r.	Attachment no. 1 to Resolution no. 18/2022 of the Supervisory Board of Medicalgorithmics S.A. dated 28 April 2022
Oświadczenie Rady Nadzorczej Medicalgorithmics S.A. **dotyczące funkcjonowania Komitetu Audytu w związku z publikacją jednostkowego i skonsolidowanego raportu rocznego za 2021 rok**	**Statement of the Supervisory Board of Medicalgorithmics S.A.** **on the functioning of the Audit Committee regarding the publication of the individual and consolidated annual report for 2021**
Rada Nadzorcza Medicalgorithmics S.A., działając na podstawie § 70 ust. 1 pkt 8) oraz § 71 ust. 1 pkt 8) rozporządzenia Ministra Finansów z dnia 29 marca 2018 r. w sprawie informacji bieżących i okresowych przekazywanych przez emitentów papierów wartościowych oraz warunków uznawania za równoważne informacji wymaganych przepisami prawa państwa niebędącego państwem członkowskim (Dz.U. 2018 poz. 757), oświadcza, że wedle jej najlepszej wiedzy: a) w Medicalgorithmics S.A. są przestrzegane przepisy dotyczące powołania, składu i funkcjonowania komitetu audytu, w tym dotyczące spełnienia przez jego członków kryteriów niezależności oraz wymagań odnośnie do posiadania wiedzy i umiejętności z zakresu branży, w której działa Medicalgorithmics S.A., oraz w zakresie rachunkowości lub badania sprawozdań finansowych; b) Komitet Audytu Medicalgorithmics S.A. wykonywał zadania komitetu audytu przewidziane w obowiązujących przepisach.	The Supervisory Board of Medicalgorithmics S.A., acting on the basis of § 70 (1)(8) and § 71 (1)(8) Regulation of the Minister of Finance of March 29, 2018, on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws 2018, no.757), according to the best knowledge states that: a) Medicalgorithmics S.A. respects law regarding the establishment, membership rules and activities of the audit committee, including the fulfillment by its members criteria of the independence and requirements on possession of knowledge and skills in the industry in which Medicalgorithmics S.A. operates, as well as in the field of accounting or auditing financial statements; b) the Audit Committee of Medicalgorithmics S.A. performed duties indicated in applicable regulations.

Rada Nadzorcza Medicalgorithmics S.A.:

Marek Dziubiński - Przewodniczący Rady Nadzorczej

Michał Wnorowski - Wiceprzewodniczący Rady Nadzorczej

Anna Sobocka - Członek Rady Nadzorczej

Stanisław Borkowski - Członek Rady Nadzorczej

Martin Jasinski - Członek Rady Nadzorczej

Andrzej Gładysz - Członek Rady Nadzorczej

Grzegorz Janas - Członek Rady Nadzorczej

Załącznik nr 1 do uchwały nr 17 Rady Nadzorczej Medicalgorithmics S.A. z dnia 28 kwietnia 2022 r.	Attachment no 1 to the Resolution no 17 of the Supervisory Board of Medicalgorithmics S.A. dated 28 April 2022
Oświadczenie Rady Nadzorczej Medicalgorithmics S.A. dotyczące firmy audytorskiej przeprowadzającej badanie sprawozdania finansowego Medicalgorithmics S.A. za 2021 rok oraz skonsolidowanego sprawozdania Grupy Kapitałowej Medicalgorithmics za 2021 rok	**Statement of the Supervisory Board of Medicalgorithmics S.A. regarding the auditor auditing the financial statements of Medicalgorithmics S.A. for 2021 and the consolidated report of the Medicalgorithmics Capital Group for 2021**
Rada Nadzorcza Medicalgorithmics S.A., działając na podstawie § 70 ust. 1 pkt 7) oraz § 71 ust. 1 pkt 7) rozporządzenia Ministra Finansów z dnia 29 marca 2018 r. w sprawie informacji bieżących i okresowych przekazywanych przez emitentów papierów wartościowych oraz warunków uznawania za równoważne informacji wymaganych przepisami prawa państwa niebędącego państwem członkowskim (Dz.U. 2018 poz. 757), oświadcza, że wybór firmy audytorskiej przeprowadzającej badanie sprawozdania finansowego Medicalgorithmics S.A. za 2021 rok oraz skonsolidowanego sprawozdania Grupy Kapitałowej Medicalgorithmics za 2021 rok, tj. Grant Thorton spółka z ograniczoną odpowiedzialnością sp. k. siedzibą w Warszawie, wpisanej na listę firm audytorskich pod numerem 4055, został dokonany zgodnie z przepisami, w tym dotyczącymi wyboru i procedury wyboru firmy audytorskiej, w szczególności:	The Supervisory Board of Medicalgorithmics S.A. acting on the basis of § 70 (1)(7) and § 71 (1)(7) Regulation of the Minister of Finance of March 29, 2018 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws 2018 item 757), declares that the selection of the audit company auditing the financial statements of Medicalgorithmics S.A. for 2021 and the consolidated report of the Medicalgorithmics Capital Group for 2021, i.e. Grant Thorton spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, entered on the list of audit companies under number 4055, was made in accordance with the provisions of law, including the selection and procedures for selecting the auditor, in particular:
a) firma audytorska oraz członkowie zespołu wykonującego badanie spełniali warunki do sporządzenia bezstronnego i niezależnego sprawozdania z badania sprawozdania finansowego Medicalgorithmics S.A. za 2021 rok oraz bezstronnego i niezależnego sprawozdania z badania skonsolidowanego sprawozdania Grupy Kapitałowej Medicalgorithmics za 2021 rok, zgodnie z obowiązującymi przepisami, standardami wykonywania zawodu i zasadami etyki zawodowej, b) w Medicalgorithmics S.A. są przestrzegane obowiązujące przepisy związane z rotacją firmy audytorskiej i kluczowego biegłego rewidenta oraz obowiązkowymi okresami karencji, c) Medicalgorithmics S.A. posiada politykę w zakresie wyboru firmy audytorskiej oraz politykę w zakresie świadczenia na rzecz Medicalgorithmics S.A. przez firmę audytorską lub podmiot powiązany z firmą audytorską lub członka jego sieci, dodatkowych usług niebędących badaniem, w tym usług warunkowo zwolnionych z zakazu świadczenia przez firmę audytorską.	a) the audit company and members of the audit team met the conditions for preparing an impartial and independent audit report on the financial statements of Medicalgorithmics S.A. for 2021 and an impartial and independent audit report on the consolidated financial statements of the Medicalgorithmics Capital Group for 2021, in accordance with applicable regulations, professional standards and professional ethics, b) Medicalgorithmics S.A. applies regulations related to the rotation of the audit firm and key statutory auditor and the mandatory withdrawal periods are respected, c) Medicalgorithmics S.A. has a policy on the selection of an audit company and a policy on the provision of services to Medicalgorithmics S.A. by an audit firm or an entity associated with the audit firm or a member of its network of additional non-audit services, including services conditionally exempted from the ban on the provision of an audit firm.

Rada Nadzorcza Medicalgorithmics S.A.:

Marek Dziubiński	- Przewodniczący Rady Nadzorczej
Michał Wnorowski	- Wiceprzewodniczący Rady Nadzorczej,
Anna Sobocka	- Członek Rady Nadzorczej
Stanisław Borkowski	- Członek Rady Nadzorczej
Martin Jasinski	- Członek Rady Nadzorczej
Andrzej Gładysz	- Członek Rady Nadzorczej
Grzegorz Janas	- Członek Rady Nadzorczej

Opinion of the Supervisory Board concerning the Auditor's refusal to formulate an opinion on the financial statements of the Company and the consolidated financial statements of the Group for the financial year ended December 31, 2021.

According to Article 70(1)(13) and 71(1)(11) of the Minister of Finance Regulation of March 29, 2018 on current and periodic reports of issuers of securities and recognition of equivalent information required under laws of non-member countries (Polish Official Journal: Dz.U. 2018.757), the Supervisory Board hereby expresses its own opinion regarding the refusal by Grant Thornton Polska Sp. z o.o. sp.k. based in Poznań, Poland ("Auditor") to express an opinion on the 2021 financial statements of MEDICALGORITHMICS Spółka Akcyjna based in Warsaw ("Company") and on the 2021 consolidated financial statements of the Company's capital group ("Group"), jointly the "Financial Statements".

In the audit reports on the Financial Statements, the Auditor has refused to express an opinion on the Financial Statements despite having obtained sufficient and appropriate auditing evidence on each of the uncertainties which it described in the section explaining the basis for such refusal, as the Auditor considered it impossible to formulate an opinion on the Financial Statements because of the potential interaction of such uncertainties and their possible cumulative impact on the Financial Statements. Furthermore, the Auditor stated in the *Key Audit Matters* section that, except for the issues described in the basis for the refusal, there have been no other key matters in the audit outstanding, including none of the most significant risks of material misstatement that would require presentation in the audit report.

The Supervisory Board has reviewed the Auditor's refusal found in its audit report ("Auditor's Position"), the basis behind such Auditor's Position, and the opinion of the Management Board on the Auditor's Position.

The Supervisory Board hereby notes that the Auditor has confirmed obtaining all required audit evidence, and the Audit Committee of the Supervisory Board was assured by the Auditor that the Financial Statements were properly prepared although certain potential interactions of uncertainties as to the going concern ability of the Company and the Group have caused the Auditor to be unable to formulate an opinion on the Financial Statements.

The Supervisory Board identifies and recognizes the threats and the risks which the Auditor has identified. In the opinion of the Supervisory Board as well as the Management Board, these risks can be narrowed down to, mainly, the uncertain ability to secure finance. All risks related to the going concern uncertainty of the Company and the Group are described in Note 2.1 to the Company's separate financial statements and Note 4.1 to the Group's consolidated financial statements.

The Supervisory Board agrees with the position of the Management Board concerning the preparation of the Financial Statements on a going concern basis, with appropriate disclosures of the uncertainties existing in that area as well as with a description of their impact on the valuation of assets and liabilities in the Financial Statements.

The Supervisory Board has been monitoring, supervising and advocating the Management Board's efforts aimed at avoiding such risks, on an ongoing basis and for many months. The Management Board is in intensive discussions with its U.S. advisors regarding bridge financing and the potential sale of the Group's assets. By the date of this opinion, certain events took place and demonstrate the commitment of the Management Board to secure the finance, including the 2021 issue of shares, talks held with a number of potential business partners, attempts to procure an investor, and efforts taken to issue more shares in March 2022.

The Supervisory Board hereby expresses its positive opinion on the actions taken by the Management Board in order to secure finance and supports its efforts.

Supervisory Board of Medicalgorithmics S.A.:

Marek Dziubiński	- Chairperson of Supervisory Board
Michał Wnorowski	- Vice Chairperson of Supervisory Board
Anna Sobocka	- Member of Supervisory Board
Stanisław Borkowski	- Member of Supervisory Board
Martin Jasinski	- Member of Supervisory Board
Andrzej Gładysz	- Member of Supervisory Board
Grzegorz Janas	- Member of Supervisory Board

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